Urban Development Authority and it's subsidiaries - 2019

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1. Financial Statements

1.1 Disclaimer Opinion

The audit of the financial statements of the Urban Development Authority "Authority'' and it's subsidiaries " Group'' for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Authority and the Group. Because of the significance of the matters discussed in the basis for disclaimer of opinion section of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer Opinion

My opinion is disclamed based on the matters stated the in the section 1.5 this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of my report. I was unable to obtain appropriate and sufficient audit evidence to express audit opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority and Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Authority's and Group's financial reporting process.

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

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability

- to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority and Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority and Group have complied with applicable written law, or other general or special directions issued by the governing body of the Authority and Group*;*
- Whether it has performed according to its powers, functions, and duties; and
- Whether the resources had been procured and utilized economically, efficiently, and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the trial balance presented by the Authority as at 31 December 2019 the total development expenses incurred in related to 675 projects between 1979 and 2019 had been included in 117 development expenses accounts amounting to Rs.164,567.35 million. The relevant capital expenditure of 675 projects had been included under 05 items as the working capital, investment property, property plant, client project and completed house. However, it was observed that even after capitalizing these expenditure to above 05 items those	Completely disagreed with the statement. In the Trial Balance, the sum of the balances in the above 115 accounts and 5 schedules as at 31 December 2019 had been stated correctly in the financial statement of 2019. The recurrent expenditure of each project had been stated in each accounts and the development	Accounts should be kept in such a way that expenditure for each project can be easily identified and the same account balances included in the ledger, trial balance, statement of financial position, should be the same.

	expenditure balances had been carried forward in the trial balance.	expenditure had been accounted under the 05 main accounts in the schedule.	
(b)	19 debtor balance amounting to Rs. 131.89 million and 03 credit balances amounting to Rs. 74,389.77 million, as prior year adjustment since 1984, and credit balance of amounting to Rs. 993.27 stated as "RETSUP" in trial balance prepared as at 31 December 2019, had not been included in the financial statements. Further, schedules and relevant evidences had not been presented to audit, to prove the accuracy or existence of those account balances and the reasons for not including in the financial statements was not presented to audit.	The account shown as RETSUP represent the retained surplus balances as at 01 January 2016. That means total of profit and loss reported since the beginning of the Authority. Actions had been taken to adjust the accounts in the year 2020 by transferring the above account balances to the retained earning account by the journal No. J 31703.	Trial balance and the financial statements should be presented accurately in an investigable manner in audit.
(c)	In the application of journal entries, adequate and appropriate internal control should be implemented by the management to ensure that each journal entry contains the appropriate authority, debit and credit accounts, value, details and account name, file relation or related documents, narration and etc. However, when checking a sample of 591 journals relevant to 2019, it was revealed that a value of Rs. 969.90 million of 77 journal entries had not been included that information.	Disagreed with the statement. While the journal is prepared by the relevant financial officers when entering the transaction the related source documents had been filed. Later, internal process had been set up to account the journals only on the approval of the staff officers of the assigned duty with in each units. Only the relevant executive officers have the power of correcting and approving computerized journals. Without that the relevant transactions cannot be included to the computer accounting system.	It is the responsibility of the management to introduce formal internal control system related to accounting in order to confirm the accuracy of the information included in the financial statements and to implement them correctly.

		The deficiency when executing this internal control system had been corrected.	
(d)	At 108 occasions cash receipts amounting to Rs.1,110.72 million had been debited to the cash account by Journal entries during the year under review . out of these 108 journal entries of value Rs.42.45 million had been narrated as unidentified cash debited to the cash book. It was observed that cash control system had not been introduced to identify the cash receipts immediately .	Journal entries had been used in record receipts of matured fixed deposits, account of processing fees payable by customers directly to the authority, money transfers between the accounts belonging to the Authority, transfer of funds between accounts belonging to the authority, direct deposit of relevant applications through online system for approve of plans. While it take time to receive the bank receipts of such deposits it had been accounted through the journal entries as unidentified income.	Should be accounted and Identifying the received cash in a short time period through the procedures introduce the deposit numbers for the way of receiving money.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

	Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a)	**Sri Lanka Accounting Standards No- 01**		
(i)	Although the nature of the reserves maintained by the institution and the purpose of maintaining them should be disclosed in the financial statements, the capital reserves which were in the declaration of mass change of the Authority up to the year 2018 had been removed from it and added to the retained profit in the year under review. Reasons and evidence to prove the reasonableness of this adjustment were not submitted the	While the assets and liabilities from the urban project in the year 1999 had been transferred to the Authority and capital reserves amounting to Rs.7 million had been presented in the accounts as reserves of the Authority. As it was not needed to continue as	Relevant disclosures regarding to the reserve changes should be done according to the standards requirements.

	auditor and required disclosures had not been made in the financial statements.	reserves further in the year 2019 actions had been taken to present Rs.8.4 million which was under these 2 reserves under retained earnings .	
(ii)	According to the paragraph 32 of the standard ,income and expenses should not be set off against each other expect in the case of need of financial reporting standard, but during the year, the expenses incurred for consultancy service were reduced by Rs.1.92 million and the income of consultancy fees was shown as Rs.85.14 million in financial statements, and due to that consultancy fee income had been understated by that value.	Due to the lack of relevant manpower within the authority in providing consultancy services for projects, MEP consultancy for some projects has been obtained from external institutions. Accordingly, since the total fee received is not an income of the authority, the paid consultancy fee has been debited to that account.	When the income and expenditure accounting it should be done according to the standards.
(b)	**Sri Lankan financial reporting standards -15**		
	As per paragraph 35 of the standard, the cost input method or work certificate method should be followed for revenue recognition. But the Authority had decided the selling price of the houses to be sold to the government instructions at the time the houses were being constructed and had entered into agreements for that. According to this at the end of the year under review, the total loss of Rs.443.07 million received by selling houses to the government institutes had been presented in financial statements by adjusting only for the prior year without adjusting as restating quantitative error retrospectively according to the Sri Lanka accounting standards No.08	In providing houses to government agencies, the selling price is determined based on the estimated cost of the housing projects. During the year under review, the entire loss recognized in respect of disposal of such houses has been accounted for as prior year adjustments. That is, although the physical and legal rights of the houses in relation to the purchase of houses have been transferred to the house owner in the year under review, because the receipt of money and the making of	Recognition of incomes and recognition of prior year losses should be done in accordance with the provision as stated in the standards.

		agreements between the two parties have taken place in the previous years.	
(c)	**Sri Lankan financial reporting standards -16**		
(i)	According to Section 63(a) of the standard, the present value of receipts should be reconciled with the present value of expenses and profit/loss should be identified. Accordingly, after the construction of houses for low-income earners, when providing houses for residence, the transfer of the asset should be considered as a financial lease on the basis of collecting money at the rate of Rs.3000 per month for up to thirty years. But the audit observed that the present value of the premium receipts had not been matched with the present value of the expenses and the profit / loss recognition had not been done. The total income of Rs. 25,838.60 million of income related to the year from Rs.24,098.92 million by the government grant related to 5083 houses handover to the house holders and the present value of Rs.1,739.68 million received on 12 % discount factor for 31 December 2019 from low income shelters are reduced from the Rs.16,645.22 which is expenses for constructing that houses and the profit of Rs.9,193.38 should be recognized in statement of comprehensive income as per the paragraph no.30 in standards 20 for accounting for government aids according to prudence concepts, Instead of that the installments of Rs.780.58 million by low income shelters had accounted as advance of government aids until that from the value expended for completed and incomplete houses had not been reduced and the remaining amount of Rs.37,082.46 million	Since it is a project implemented as per the requirement of the government based on social needs, the value of the land had not been taken into account while calculating the project profit/loss. Also, the government has made some provision to cover the construction cost. The income from providing the land for commercial activities after the relevant relocation will also be used to cover the cost of this project. Also, although the people have been settled in the respective houses, they have not yet been given full ownership of these houses. Accordingly, as per Standard No. 16, the above housing disposals cannot be accounted for as finance leases.	Accounting should be done properly according to the standards.

	had been included and kept as fixed assets in financial statements without depreciating.		
(ii)	According to the paragraph No.81 of the standard, the lessor should be recognized lease revenue of operating lease on the straight line basis or on another systematic basis. After providing the assets of the Authority on a long-term lease basis, the Authority should follow a uniform method of taking the lease value into the annual income of the entire lease period, but ,it was observed that different methods are used by the Authority in the financial statement, when giving leases and accounting income under each project, monthly, annually, on the basis of grace periods, etc.	Accordance to Authority Act release of land on long term basis has been done from the beginning. According to that, in the past, the time period for which the land is released and the method of charging, have been given on different bases. After the asset is provided on a long-term lease basis, a uniform method is used to take the lease value into the Authority's income throughout the lease period, and due to accounting errors in the deferred lease account, there are also some instances where the relevant income has not been accounted for in a uniform system. Necessary steps are being taken to rectify the lease accounts	According to the standards, lease income should be correctly identified and presented in the financial statements.
(iii)	In order to meet the disclosure objectives set out in paragraph 89 of the Standard, the nature of the lessor's leasing activities in accordance with paragraph 92 (a) of the Standard and the management strategies disclosed in accordance with paragraph (b) thereof regarding how the lessor manages the risk associated with the rights on the relevant asset, action had not been taken to do such disclosures accordingly.	At present, a large number of properties (about 5000) have been leased under different lease periods, so it is not practical to show the facts related to each property in the financial statement. Therefore, restrictions have been	Correct information should be presented in the financial statements in accordance with standards.

		imposed as measures taken to mitigate the nature and risk of public land disposal activities and those matters are updated in the accounting system based on the valuation report related to the investment property and disclosed in the financial statements.	
(d)	**Sri Lanka Accounting Standards No. 16** The useful lives of fixed assets which are fully depreciated as per the standard but still in use should be revalued and the estimation error should be corrected as per Sri Lanka Accounting Standard No. 8 and the adjustments for the estimated useful lives of the assets should be adjusted in the financial statements. However, the assets that were fully depreciated and had a cost of Rs.606.80 million that were still in use according to the depreciation schedule presented had not been dealt in accordance with the standard.	Since the revaluation of assets should be done through parties who have knowledge about it and it will take a considerable amount of time, I would like to inform you that the related assets will be re-revalued and the related adjustments will be adjusted in the 2021 books of account.	Fully depreciated assets should be treated as per the standard. .
(e)	**Sri Lanka Accounting standards No. 17** A sufficient disclosure had not been done related to deferred lease rentals of Rs. 43,499.43 million stated in statement of financial position in accordance with paragraph No- 47 of standard	I hereby inform that disclosures will be made in the final accounts of the year 2020 based on the recently conducted valuation information.	Sufficient disclosures should be done in financial statements related to lease income.
(f)	**Sri Lanka Accounting standards No. 40 – Investment property**		
(i)	Contrary to paragraph 16 of the standard, Rs. 35.81 million spent on 06 projects for city beautification activities that do not generate income and Rs.14,360.77 million spent on 23 projects introduced as city development programs and the written	It is informed that action will be taken to present the correct classification in the financial statements of the year 2022.	Investment Properties should be identified and accounted in accordance with the standard.

	down value of Rs. 18.10 million circuit bungalow belonging to the Authority as at 31 December 2019 also accounted as investment properties.		
(ii)	An entity shall select the fair value model in paragraphs 33-35 or the cost model in the paragraph 56 as its accounting policy, with the exceptions specified in paragraphs 30, 32(a) and 34 of the standard. According to paragraph 53 of the standard, the selected policy should be used to account for all investment property unless it is unable to measure the fair value reliably. However, according to the sample audit, it was observed that the Authority accounts for some investment properties at cost, some at revaluation value and in some cases as a combination of both values. Also, regarding the accounting of the 99 year leased property, although advice was given during the audit discussions to take advice from the Sri Lanka Accounting and Auditing Standards Monitoring Board and make the accounts accordingly, but, no actions had been taken so far.	land and buildings owned by the Authority are included in the investment property. That properties had given to external parties for various development works on long term lease basis of 30, 50 and 99 years. In the year 2012, an internal valuation committee valued the investment properties other than the properties given on the 99 years lease basis held by the Authority and the values as at 01 January 2011 have been entered into the books of account with the accounting assistance of a qualified charted accountant firm. Here with the approval of the Board of Directors, the investment properties which were leased for 99 years were accounted under the historical cost. These lands are government owned lands and if they are completely removed from the books of account, there is no possibility of getting any details in this regard.	A specific accounting policy should be selected and followed as per the standard in accounting for lease assets.
(iii)	According to paragraph 07 of the standard, if it is expected to invest in future investment opportunities, those properties	The amount of land has been allocated for each project and action will be	Investment properties owned by the authority should be identified and

	should also be accounted for as investment properties. But, according to the letter of the Director of Land Development and Management dated 11 March 2021, 37 acres out of 1167 acres of land belonging to the parliament land had been allocated as development projects of the Urban Development Authority. But, those plots of land were not separately identified and valued and accounted under investment properties and a detailed schedule to identify those lands had not been submitted to the audit.	taken to account the value of that land extent as appropriate in the year 2021.	accounted separately.

1.5.3 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Due to inclusion of 03 projects of Rs. 112.93 million which were completed on behalf of another institution, in the work in progress of Rs. 21,948.47 million, the working progress had been overstated by that amount. The provision of Rs. 13.85 million made from the year 2004 for work in progress was not specifically identified and necessary adjustment had not been made. Also, due to the adjustments of minus balance of Rs. 1.65 million, the total value had been understated by that amount.	A general provision of Rs. 13.85 million had been made from work in progress account for possible contingencies. That allocation had been maintained and unchanged since 2004.	Work in progress account should be transferred to fixed assets immediately on completion and which general provision is impractical.
(b)	In 2019 financial performance statement of the Authority under the revenue of the Floating Market complex project, the key money income of Rs. 4.22 million which was over recognized in the previous years had been deducted from the income of the year under review and accounted instead of being corrected in relation to the previous years. As a result, the accumulated profit had been overstated and profit for the year under review had been understated.	Due to over accounting in the computer system of receivables from customers of the Floating Market complex up to the year 2018, the amount has been erroneously written off against the income of the year under review.	Entering and approving data into the computer system should be done with proper supervision and control.

(c)	According to the percentage of depreciation, a written down value of Rs. 37.82 million had been shown for those assets in the financial statement as at 31 December 2019, due to incorrect adjustments to the assets that had passed between 02 and 15 years after the end of the depreciable period. As a result, the written down value of property, plant and equipment in the financial statement as at 31 December 2019 had been overstated by that amount.	Arrangements will be made to correct account for this as prior year adjustments in the 2020 accounts.	Adjustments to accounts should be done accurately and under adequate supervision.
(d)	In calculating the depreciation for the year under review, Rs. 7.19 million had been understated and due to that the profit of the year had been overstated from that amount.	Necessary arrangements will be made to adjust in the final accounts of the year 2020.	Calculation of depreciation and accounting should be done correctly.
(e)	A rental income of Rs. 13.96 million unrelated to the Authority for the year 2019 from 22 quarters built next to the Hambantota Siribopura Administrative complex, had been accounted under the Authority's rental income.	The income of the official housing complex is being accounted under the Hambantota bus stand development project. However, at present their ownership have been vested to the Urban Development Authority.	Due to lack of ownership by the year 2019, it cannot be accounted.
(f)	Bank charges and cheque book charges amounting to Rs. 10.21 million charged by the bank had not been accounted for the year under review. As a result, during the year expenses had been understated by that amount.	During the transition to the accounting system, there was some delay in the process of preparation of bank reconciliations in the year 2018 and 2019, due to the lapse of sufficient time to make the necessary improvements to the system and with the introduction of the application method under the online system. As a result, the said amount had not been credited.	The purpose of using an accounting system is to maintain a more accurate and up to date classification. Because of this, transactions and events should be recorded more regularly, up to date and with proper supervision.

		But the relevant adjustments have been made subsequently.	
(g)	Debtors amounting to Rs. 32.07 million had been written off with the approval of the Board of Directors. The total income of the year under review had been understated by that amount, as the provision for impairment had been written off against the income of the year under review instead of being debited to the provision of impairment account.	The remaining balances which were written off without proper approval have already been accounted for as debtors again as at 31 December 2020 under the J31730.	Provisions and write offs must be properly made on the basis of formal approval and should be accounted properly.
(h)	The sum of receivables and payables for construction projects carried out on behalf of other government agencies had been offset against each other instead of being shown separately. Due to this, the money received for the projects was Rs. 4,632.97 million under current liabilities and expenditure incurred on behalf of the projects was Rs. 3,746.88 million under current assets had been understated.	After offsetting some project expenses, the remaining balance of Rs. 1,260.44 million under various project numbers has been written off against customer deposits as capital expenditure as at 31 December 2021. The funds received have been written off only against the expenditure incurred for the respective projects. Some of the deposits mentioned in this account have been accounted for over 30 years ago and the sources required to obtain their information have not been found. Thus, the balances existing for a long time will be removed from the accounts after obtaining the relevant approval.	Proper accounting policies should be introduced for project accounting.
(i)	In the government grant contribution included in the statement of financial position, the government grant received	If it is necessary to make an adjustment to the accounts, the relevant	Amortization for government grants should be recognized and

	for the Sethsiripaya administrative complex was Rs. 679.58 million, of which Rs. 357.39 million was amortized and Rs. 7.15 million should have been recognized as deferred income in the income statement, but it had not been recognized as such. As a result, the profit of the year under review had been understated by that amount.	files will be checked and corrections will be made in the accounts from the accounting year 2020.	accounted for in accordance with the standards.
(j)	As at 31 December 2019, the 1,167 acres 03 roods and 86.9 perches belonging to the parliament land, including 214 acres 01 rood and 16.8 perches which had been disposed to other parties on lease basis, transfer of ownership basis or annual rent basis were stated as Rs. 3,975.03 million in the financial statement as investment property and according to the schedule given to the audit, the value of 214 acres 01 rood and 16.8 perches of disposed property had been stated as Rs. 5,881.64 million. Accordingly, it was observed that the investment property was understated by Rs. 1,906.61 million in the financial statement.	During the preparation of this report, the new valuation report for 2019 was being prepared, so it was not possible to present the valuation amount of the respective lands accurately. Therefore, the value taken to dispose of the land on the date of disposal of the land was mentioned in the relevant report. The financial statements show the valuation value for the year 2012 and the correct value will be shown in the accounts after accounting for the investment properties as per the new land valuation in the year 2021.	Schedules relating to the figures included in the financial statements should be submitted for audit and necessary disclosures should be made about events after the balance sheet date.
(k)	Five motor vehicles purchased by Peliyagoda Warehouse Company at a cost of Rs. 11.31 million had been handed over to the Urban Development Authority in the year 2010 and 2012 and removed from the company's financial statements. Also, it had been stated that furniture and office equipment amounting to Rs. 14.28 million were given to the Authority through an unsigned document of an authorized officer. But, since the	The company has been handed over the vehicle to the Authority since before the commencement of liquidation proceedings. These assets had been shown in the books of accounts as assets of the PWCC company until the commencement of	Liquidation proceedings have not been completed for more than 10 years. Therefore, since these assets have not been accounted for 10 years, the liquidation proceedings should be expedited.

	assets were not valued and accounted by the Urban Development Authority at the time of taking over, the value of the assets had not been included in the accounts of the Authority or the Group.	liquidation proceedings. Accordingly, after the liquidator submits the liquidation accounts, arrangements are made to adjust the relevant assets to the accounts.	
(l)	In the deferred lease liability balance, a debt value of Rs. 21.02 million related to the 05 projects was set off against the deferred lease liability, and hence, the deferred lease liability account had been understated by this amount.	The files will be further checked and corrections will be done after finding out the customer number.	The lease register should be updated.
(m)	According to the Urban Development Authority Act No. 41 of 1978, as per the powers available to Authority, the activities related to the land acquisition for various ministries and government institutions are being carried out. But the Authority had not been bound by written agreements with those institutions to acquire lands on their behalf. As a result, the Authority had to pay the compensation to the external land owners when the land was acquired by the Authority, but the system had not been followed to collect the money from the relevant institutions on the due date. Also, due to the fact that the documents were not maintained in such a way that the amount of money receivable to the Authority and payable to external parties could be specifically identified. Due to that, it was not confirmed that the money to be paid to the external parties and money to be recovered from the external parties are properly accounted. For example, for the land to construct a three storied building for Kanapathy Vidyalaya, according to the judgment of the Compensation Review Board dated 26 September 1990, out of the compensation of Rs. 4.17 million only	The total estimated compensation and interest to be borne by the authority for all the land acquisition activities currently carried out on behalf of other government institutions shall be deposited by the relevant institutions to the Urban Development Authority before issuing the order for the government to own the subject land plots in accordance with the provisions of the Land acquisition Act. A policy decision is taken and acted upon accordingly. But, since arrangements were made to award the relevant compensation according to the amount received in the beginning, a register was not prepared. After checking the relevant files, compensation and interest have been paid to the	According to the estimated values of the lands, accounts should be properly maintained by after reaching agreements on proper charges and payments with external parties.

	Rs. 2.58 million had been paid from the Authority's fund as at 31 December 2019. Accordingly, the further compensation and interest amount to be paid was Rs. 1.58 million and Rs. 14.09 million respectively and those obligations had not been accounted in the 2019 financial statements.	external parties on receipt of money. However, after pointing out the audit, I would like to inform that a detailed register will be prepared for the year 2022 stating the amount of compensation to be received and paid on behalf of other institutions and adjustments to be made to the accounts and the necessary disclosure will be made.	
(n)	According to a valuation carried out in the year 2021 as effective as at 31 December 2019, the value of the land and buildings owned by the authority was valued at Rs. 598,326.14 million and presented as a note in the financial statement submitted as at 31 December of the year under review, but in the statement of financial position, the value of land and buildings was stated as Rs. 137,181.32 million. This revaluation was carried out by an officer who served as a director in the authority and retired from 19 March 2021 and Rs. 1.125 million had been paid to the said officer.	In the year 2012, in the process of adoption to Sri Lanka Accounting Standards, it was decided to represent the investment property on the cost basis from two exceptions according to Sri Lanka Financial Reporting Standard No. 01. On that day, the land and properties owned by the authority were revalued (except for the 99 year lease property) and those values were considered as cost on that day and adjusted to the accounts. In the year 2019 only a disclosure was made in the accounts under three main classifications of the total value of Rs. 598,326.14 million in the valuation report. Accordingly, until now	Accounting should be made at the valuation value based on the current market value of the lands.

the authority has complied with Sri Lankan Accounting standards on the basis of representation at cost, which is the accounting policy followed in relation to investment properties.

1.5.4 Un reconciled Control Accounts or Records

	Item	**as per Financial Statements (as at 31 December 2019) Rs.Mn.**	**As per corresponding Record (as at 31 December 2019) Rs.Mn**	**Difference Rs.Mn.**	**Management Comment**	**Recommendation**
(a)	Rent Income Debtors	1,358.92	1,389.57	30.65	Relevant correction has been made as at 31 December 2021.	
(b)	Receipts of management and consultancy service	78.71	135.31	56.59	Accounting will be done after obtaining cabinet approval for consultancy fees.	Necessary adjustments should be done by comparing the financial statements and schedules to identify the reasons for differences.
(c)	Accrued bonuses, medical allowances	122.86	78.34	44.52	Actions have been taken to reconcile the accounts as at 31 December 2021.	
(d)	Loan installments receivable (UDSP)	287.18	298.01	10.82	Adjustments will be made in 2020 and 2021 accounts.	
(e)	Tender deposits	18.44	18.55	0.10	Corrections will be made in customer schedules.	
(f)	Loan interest	395.63	394.79	0.84	Adjustments will	

	receivable (UDSP)				be made in 2020 and 2021 accounts.
(g)	Customer Deposits	4,737.23	4,737.26	0.02	Adjustments will be made in 2020 and 2021 accounts.
(h)	Payable With Holding Tax	2.67	2.61	0.06	Necessary action will be made to adjust the accounts for the year 2020.
(i)	Electricity Deposit	111.14	107.25	3.89	Corrections will be made in the final account as at 31 December 2021.
(j)	Receivable monthly rental income and lease rental	96.66	96.06	0.59	Corrections will be made in the final account as at 31 December 2021.
(k)	Outstanding fines on monthly rental and fee for use	52.29	141.35	89.06	Necessary action will be taken to adjust the accounts for the year 2020.

1.5.5 Preparation of Consolidated Financial Statements

	Audit Observation	Comments of the Management	Recommendation
(a)	**Lanka Rest Houses Company**		
i	Even though the property, Plant and Equipment amounting to Rs. 10.28 million had been shown in the financial statements, the assets purchased subsequent to the year 2011 had only been represented that amount. The management of the Company had accepted that the assets acquired before the year 2011 are also owned by the Company and other assets including Rest Houses are already existed.	The Company had not been maintained an asset register and information related to prior to the year before 2011, cannot be furnished.	Actions should be taken to verify all assets belonging to the Company and they should be included to an asset register and those information should be maintained comprehensive and updated manner.

	However, action had not been taken to revalue those assets and brought to the accounts. Also, the accuracy of the fixed assets of Rs. 10.28 million stated in the financial statements of the company as of 31 December 2019, could not be verified in the audit due to the fact that a fixed asset register for property, plant and equipment was not maintained in up-to-date and comprehensive manner.		
ii	The payable expenditure for renovation of the Maiyanganaya Rest House during the year under review amounted to Rs. 3.19 million had not been accounted as working capital and as a payable expenditure.	The expenditure will be capitalized through a Journal entry in order to make the corrections stating it as work-in-progress of the year 2019.	The expenditures and liabilities related to the year under review should be shown in the financial statements
iii	The balance of the current account with the company and the parent was Rs.57.63 million and according to the account of the Urban Development Authority, the balance of the current account related to the company was Rs.61.68 million, the difference was Rs. 4.05 million. However, the actions had not taken to identify the differences between the accounts and to adjust the relevant balances.	Even though that reconciliation statement had not been furnished to audit in 2019, corrections to be taken in order to give real picture.	Action should be taken to reconcile the current account balances with corresponding balances, in order to make the corrections before furnish the accounts.
iv	According to paragraph 60 of LKAS 1, the assets and liabilities as at 31 December 2019 should be stated in the statement of financial position in liquidity order. However, the statement of financial position had not been prepared accordingly.	Comment had not been given	The statement of financial position should be prepared according to the Accounting Standards.
v	According to paragraph 81 of Sri Lanka Financial Reporting Standard – 16, the revenue received on operational lease should be identified on the	As this amortization over 10 years period, the Journal entries put for only 2019, and it	According to the Sri Lanka financial Reporting Standard, the lease income should be identified.

	Straight-line method or any other systematic basis. However, the key money received from 3 rented Rest Houses, given on 10 years period, on 10 July 2019 amounting to Rs. 2.78 million had been identified as an income of the year under review instead of being identified them on systematic basis though out the rented period. As a result, the profit for the year under review had been overstated.	will be corrected.	
vi	The receivable interests as at 31 December 2019 from fixed deposits had been understated by Rs. 0.74 million. As a result, the profit for the year under review had also been under stated by that amount in the financial statements.	Based on the confirmation given by the bank, this will be changed.	The receivable income for the period should be correctly identified.
vii	The income receivable from the Rest Houses had been overstated by Rs. 1.49 million in the financial statements of the year under review. As a result, the profit for the year and trade debtors had been overstated in the financial statements by that amount.	The Company had not maintained a debtor's ledger. However, in order to provide real information, action has been taken.	The receivable income for the period should be correctly identified.
viii	The value added tax payable to the Local Authorities amounting to Rs. 3.66 million on the income generated by the Company by managing the Rest Houses owned by the Local Authorities, had not been shown in the financial statements.	This had been totally omitted from the accounts and action to be taken to make the corrections.	That the payment and accounting of statutory dues should be done correctly.
ix	Contrary to LKAS – 7, when preparing the cash flow statement, the fixed deposit amounting to Rs. 39.49 million which is not realized within a year had been shown under the cash and cash equivalents. In addition, instead of being shown the purchase cost of the property plant and equipment as cash out flow, the net amount after deducting of depreciation had been	Only the actual cash flows should be shown under the investment activities, Hence variances should be adjusted. Purchase of fixed assets should be shown under the investment activities. It had been showed the	According to the relevant standard, the cash flow statement should be prepared.

	adjusted to the cash flow statement. As a result, the cash out flow shown in the cash flow statement had been understated by Rs. 0.63 million.	net amount after deducting of depreciation, it will be corrected.	
x	Although Rs. 4.15 million was written off from the books as bad debts during the year under review, the schedule related to this bad debts calculation had not submitted to the audit.	Even though a register for the calculation particulars had not been maintained, action to be taken to maintain it for the year 2019.	Action should be taken to provide the particulars to audit.
xi	Details and schedules related to the calculation of income tax for the year under review had not submitted to the audit.	Comment had not been given	Action should be taken to provide the particulars to audit.
xii	The confirmations relating to trade creditors amounting to Rs. 21.12 million and other creditors amounting to Rs. 7.15 million had not been received. Therefore, existence of those creditors could not be confirmed in audit.	Comment had not been given.	Arrangements should be made to obtain confirmation letters of creditor balances.
(b)	**Waters Edge Company**		
i	According to LKAS – 16, the fully depreciated assets, but still in use, should be disclosed in the financial statements, and action should be taken to adjust the re-evaluated useful life of those assets as per the LKAS -8. However, action had not been taken accordingly, relating to the fully depreciated assets, but still in use, amounting to Rs.105.8 million.	We believe that there is no compulsory requirement to revalue the fully depreciated assets. Steps have been already taken to implement a process to identify entire assets belonging to the Company (at the beginning of 2021.) As such, the requirement heighted in this audit report will be fulfilled.	According to the requirement of the standard, the disclosure should be made relating to the fully depreciated assets in the financial statements.
ii	A land, extent of 23 acres 01 roods and 9.05 perches had been leased by the Company for Rs. 4,275.04 million for a 99 years lease period and another	The lands had been leased by the Company for 99 and 20 years lease period in the year	When presenting the financial statements should be comply with the provision in the Sri lanka

	land, extent of 01 acre, 3 roods and 34.02 perches, had been leased by the company for Rs 80 million for 20 years period from the Urban Development Authority.. However, according to paragraph 24 and 26 of the SLFRS-16, right to use of land on lease basis had not been disclosed in the financial statements.	under review and the preceding year from the Urban Development Authority. Those transactions had accounted by the Company based on the cost concept of the SLFRS – 16. When accounting of those assets, all related direct expenditure had also been added to the value to show in the financial statements.	Accounting Standard .
iii	The disclosure relating to the transactions conducted with the Line Ministry amounting to Rs. 0.64 million had not been disclosure in the financial statements as per the LKAS-24.	Action to be taken to rectify in the future.	According to the Accounting Standard the disclosure should be made.
iv	According to the Sri Lanka Accounting Standard no 08, the estimated useful life of the car parks and road ways had been changed from 5 years to 25 years. However, the approval of the Board of Directors had not been obtained thereto and the effect on financial statements from the changes of accounting policy, had not been disclosed in the financial statements.	According to the LKAS-8, the relevant disclosures will correct in the financial statements of the year 2020.	The disclosure relating to effect of changes of accounting policies should be disclosed in the financial statements and the approval of the Board of Directors should be obtained for changes.
v	The orchid plants had been planted in the Company's garden in the year 2019 incurring Rs. 14.7 million for commercial purpose. However, according to the LKAS-16 (Bearer Plants), the disclosure had not been made in the financial statements relating to those biological assets.	Even though it had been decided to sell some portion of the orchid plants at the beginning of this project, it was not so conducted. Hence, those plants had been used only for beautification purpose. Therefore, it is not required to identify those assets as the	As approved project plan, those plants had been purchased based on a commercial purpose, it should be complied with requirements of LKAS-16.

		biological assets.	
vi	The Railway Carriage Restaurant constructed by the Sri Lanka Land Development Corporation (SLLDC) incurring Rs. 125.44 million had been transferred to the Company on 28 February 2018 for operating activities. The SLLDC had claimed a sum of Rs. 130.88 million including the interest for delaying period, as at end of the year under review. However, provision for that liability had not been made in the year under review and only a disclosure had been made in note 13(b) in the financial statements. As a result, the profit for the year under review and accumulated profit as at end of the year under review had been overstated approximately by Rs. 26.42 million and Rs. 22.02 million respectively and the trade and other creditor’s balance had been understated by Rs. 136.88 million.	This Railway Carriage Restaurant had been handed over to the Waters Edge Company in February 2018. However, the relevant parties had not entered into an proper agreement up to end of 2019 relating to this take over. Hence, due to lack of knowledge about the payables to the SLLDC and due to lack of an agreement, the disclosure of liabilities was limited to a note. Nevertheless, it had been taken steps to prepare a legal agreement in this connection at present and the discussions has been conducted to settle the payable on a concessionary basis. As such, after being entered into an agreement, action will be taken to account the liabilities.	As it should be made the payments since the date of use of the assets, the payables should be calculated on accrual basis and adjusted to the financial statements.
vii	When acquired the Waters Edge Hotel from the Asia Pacific Golf Court Company in 2009 through the Urban Development Authority, the assets comprising of office and kitchen equipment and other current assets amounting to Rs. 262.28 million had also been taken over to the Company. However, the Waters Edge Company had neither inventoried nor accounted	When acquiring the hotel, the assets had not been included to the financial statements based on the decision made by the Board of Directors. According to the opinion given by the SLICA, it was mentioned that the	The assets acquired from the owners of the Company should be inventoried and the assets should be revalued and shown in the financial statements.

	those assets after being valued them.	Company had not a legal liability on the acquired assets. Thus, the assets had not been accounted. However, based on the ongoing assets revaluation activities, all assets will be accounted according the revaluation.	
viii	In order to construct a Children Park within a six months period, an agreement had been singed with a Foreign Private Company on 21 December 2017 and in terms of Sections 4.1 and 5.1.1 of the agreement, the Developer should paid a monthly rent of Rs. 0.6 million during the management period. However, any monthly rent had not been received by the Company up to end of the year under review from the Developer and receivables from the Developer amounting to Rs.10.8 million had not been shown in the financial statements of the Company.	Comment had not been given.	Action should be taken to recover the receivables according to the agreement.
ix	The receivables from 4 Public Institutions as at end of the year under review amounted to Rs. 16.86 million had been shown in the financial statements as recoverable for a period ranging from 02 to 06 years. However, as per the financial statements of the above Public Institutions, such a debtor balances had not been shown as payable to the Company.	The matter highlighted in the audit quarry had been already identified by the Company and that had been discussed with the accounting system implementing firm of the Company. Accordingly, the changes to be made in future as per the requirements.	The receivables from the Public Institutions should be informed to them and the receivables should be brought to the accounts.
(c)	**Urban Investment and Development Company**		
i	A difference of Rs 7.22 million was observed between the detailed	According to the age analysis, this was due to	System errors should be rectified.

schedule submitted for audit and the value shown in the debtor's ledger. However, no comparison had made to detect the difference.	the reason of system error. The system analysts of Company that supplied the software, already started to correct this balance in the report of age analysis and they will correct and complete before ending this year

1.5.6 Documentary Evidences not made available for Audit

	Item	Amount Rs. Million	Evidence not available	Comments of the Management	Recommendation
(a)	Documents submitted with financial statements. • Working in progress • Government grants • Current account reconciliation report	9,112.17	Detailed schedules.	Investment properties and other supporting documents are provided.	Supporting documents with necessary details should be submitted.
(b)	Investment property	96,706.77	• Acquisition dates of properties • improvements made • write-offs • lease basis	These details are currently being identified and compared with the lands and properties mentioned in the new valuation report for the year 2020. Kindly inform that it will be included in the 2020 valuation report.	Supporting documents with necessary details should be submitted.

(c)	Details of the units/divisions transferred to property and plant in the Sethsiripaya building	1,613.13	Information to verify the accuracy of the value transferred.	In 2019, arrangements have been made to account the cost related to the property, plant and equipment amounting to Rs. 1,613.13 million of the authority, through a journal no. J 22548 under the account code 2118 relating to the property, plant and equipment of parliament project code 1210400.	Sufficient information with the journal entries should be submitted to confirm it.
(d)	Parliament land	114.82	Lease agreements	For most of the lands, the free grant certificate under section 6(1) of the government land ordinance has not yet been received to the authority, so there is no possibility of issuing the lease agreement and the date of handing over the physical possession of the land is considered as	Leasing of lands to outside parties, before taking the lease hold rights to the authority can cause legal problems.

				the commencement of the lease agreement.	
(e)	Deferred lease rental (Liability Account)	129.85	• lease property • location	The committee appointed in this regards will examine the lease and make necessary corrections.	Accurate information regarding lease properties should be maintained.
(f)	Receivable consultancy and management fees	10.63	Detailed schedules	Since the work of updating the relevant schedule is currently being done, any balances identified there will be corrected in the accounts.	Detailed supporting documents should be submitted to verify the accuracy of the figures included in the financial statements.
(g)	Asset valuation charges	2.25	Documents related to selection of valuer	Through the Director General’s letter dated 18 February 2021, charted valuer who was a former director of the Authority and who had been active in the valuation of the assets owned by the authority has been assigned for the task with the approval of the board of directors.	Asset valuation should be done independently by a person selected on independent basis.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	The warehouse complex owned by Peliyagoda warehouses company, which is subject to liquidation had been given by the Authority to Nelum Pokuna Theater on a monthly rental basis since August 2017, but an agreement was not signed between the two parties until the audit was carried out and accordingly the rent also had not been paid. Due to this, the total arrears of rent that should have been received from the theatre premises to the Authority as at 31 December 2019 was Rs. 8.03 million.	A lease agreement has been entered into with the Ministry of Cultural Affairs and the Presidential Secretariat until the year 2015. With the change in the political environment in the year 2015, they continued to use the warehouse complex even though no agreements were reached. Also they did not pay the relevant rent from that year. In many instances, letters were sent by the Authority to collect the arrears and so far action has not been taken to pay the money.	After 2015, the Authority's assets have been utilized without contracting. Arrangements should be made to enter into agreements and collect arrears of rent.
(b)	According to the debtor age analysis, it was observed that out of 07 ledger account balances with a total value of Rs. 1,153.1 million, Rs. 477.5 million have been outstanding for a period of 3- 4 years. Further observed that, it was 30.69 per cent of the total value.	At present action is being taken to recover the outstanding balances legal action is sought to be taken to recover from defaulting customers.	A formal procedure for recovery of arrears should be introduced and implemented.
(c)	In the year 2011, when the Lanka Rest Houses company was established, the balance due in the transfer of assets and liabilities to that company had not been identified and properly transferred. Due to this, the credit balances of Rs. 1,053.79 million was offset against the debit balances of Rs. 1,168.48 million as the Rest house debtor balance in the year 2019	Accounting for invoices and error corrections are done by debit entries and accounting for cash receipts and error correction are done by credit entries. According, the value obtained by entering the debit and credit balances	Correct adjustments to accounts should be made in transferring assets and liabilities.

	financial statements and Rs. 114.65 million had been shown in the financial statements after offsetting.	are correctly indicated in the accounts. At present a committee has been appointed and based on their recommendation, related adjustments will be made in the future.	
(d)	A balance of Rs. 28.62 million was set off against the balance of management consultancy fees receivable of Rs. 39.25 million and a balance of Rs. 10.63 million had been shown as receivable. That balance included an unidentified receivable balance of Rs. 19.58 million and, an unidentified payable balance of Rs. 18.87 million over 35 years.	Unidentified and miscellaneously stated receivables and payables include many of the transaction balances in the years of 1983 and 1984 that are more than 35 years old. No source documents can be found for those balances. Actions will be taken to write off the balances to be written off before 30 June 2022 as per the approval of the Board of Directors.	Rectification of accounts should be done within due time and arrangements should be made to recover the due balances.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	clause in the 8 (i) paragraph of part II of Urban Development Authority Act No.41 of 1978	Even though an urban land using policy should be prepared and implemented by the Authority, action had not been taken even at the end of the year under review.	Since 1978 until 04 May 2022, 64 development plans out of 94 local government institutes have been prepared . Another 57 developments plans are being prepared.	In accordance to act, a public land use policy should be prepared.

(b)	Clause 8(a) of part II (A) of the Urban Development Authority (amendment) Act No. 04 of 1982	It was observed that, although the authority should give their attention in establishing places to park vehicles of the public who arrives from vehicle on different needs and increase the mentioned facilities by the interference of the authority was not done. It is observed that the traffic congestion in suburb cities and in Colombo had not been resolved due to the fact that 5 out of the 15 projects that had been approved for the construction of 15 car parks in the capital were not implemented as per the agreement.	The following projects are being done. • Construction of multi-storied car parks • Light railways projects • Proposed for interchange hub for main cities through expressway • Southren railway and Kelaniweli railway Other than that, to reduce the traffic congestion in main cities solutions had been implemented.	should act according to the requirement of the act.
(c)	Treasury circular			
i.	Treasury Circular No. 842 dated 19 December 1978	Even though a fixed assets register should be maintained in accordance with the General format 287 related to fixed assets that are being used and belongs to the Authority, no such fixed asset register had been maintained.	Except lands and buildings an asset register is being maintained for other fixed assets. Actions are being taken to adjust revaluation amounts for the financial statements of the year 2022. The information not presented in the valuation report is being computerized by the Property Development Division.	Arrangement should be made to maintain a register of fixed assets in accordance with the circular.

ii.	Treasury Circular No. IAI/2002/02 dated 28 November 2011	Even though a fixed asset register should be maintained in respect of computer machines and computer software including details of purchase of computer machines, custody, maintenance, repairs, and disposal etc. such a register was not maintained.	A detailed register on the computer machines and computer software belonging to authority is maintained by financial management information system. In the future developing the system will be done through the relevant company.	Should maintain a register including the information about computers in accordance with the circular.
(d)	The Public Enterprises Circular No. PED/12 dated on 02 June 2003			
i.	8.2.3 Clause	The approval of the Cabinet of Ministers had not been obtained for the establishment of Urban Investment and Real Estate Private Company, Urban Investment and Hotel Development company, Orchard Urban Development company and Waters Edge Hotel Development company which were established by the authority on 21 November 2014 as subsidiary companies.	Established by adhering to the development objectives of the authority according to the decision of the Board of Directors. Due to the subsequent change in political Authority, the approval of the Cabinet has not been obtained. A final decision will be taken in consultation with the Board of Directors regarding the operation of these companies.	According to the circular, arrangements should be made to obtain the approval of the Cabinet of Ministers while establishing the companies.
ii.	10.2.4(a) (b)	The performance of the liquidation of peliyagoda warehouse company should be monitored by the relevant	The liquidation was delayed due to non- acquisition of the land by the	When liquidating of the company, relevant rules and regulations should

		ministry and should be reported quarterly to the Public Enterprise Department of the Treasury. Also, the time taken for its liquidation should be a maximum of 6 months ,and when liquidation cannot be done within that period ,the Cabinet approval should be sought to extend the liquidation period. However, it was observed that the company has not complied with these requirements.	Port Authority and non-implementation of the proposed Colombo Port Expansion Development Programme. Also due to the fact that the organization that had obtained the service facilities of the warehouse complex took enough time to leave. Cabinet approval for extension of liquidation period has not been obtained. Since 2020 the committee had not been executed.	be followed.
(e)	Paragraph 07, in the V schedule of extraordinary gazette No. 597/8 dated on 17 April 2009 of Democratic Socialist Republic of Sri Lanka	According to a survey conducted by the Authority a few years ago in connection with the metropolitan area and canals within the jurisdiction of the Colombo Metropolitan Area, 1868 unauthorized alteration were identified. According to the provisions of the relevant gazette, if the unauthorized constructions can be regularized. However Relevant actions had not been taken to legitimate a charge for the covered approval, charging a fee for the changes in use by Authority, legitimate the relevant	Out of 68,000 unauthorized houses identified in the survey, 9958 families have been settled in flats as at 31 December 2021 and steps have been taken to remove unauthorized constructions. A advisory committee has been gazette to deal with the powers given to the Minister in - charge regarding	Should act in accordance to the gazette paper.

		constructions or removing the illegal constructions according to the arrangements of the relevant gazette notification.	unauthorized construction and alteration. The advisory committee has dealt with 35 constructions in the year 2019.	
(f)	Financial Regulations of Democratic Republic of Sri Lanka 113(3)	Debtor balances amounting to Rs.32.06 million related to previous years had been written off through 04 journal entries without the approval of the Ministry of Finance. Among those balances, It was observed that, the Board of Directors' approval was not even obtained for the balances amounting to Rs. 17.87 million.	Steps have already been taken to reverse these write-offs and internal controls have been strengthened to ensure that such deficiencies do not occur in the future.	Internal controls should be developed to comply with the requirements of Finance Regulations.

1.8 Cash Management

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the information presented, 07 bank accounts opened by the authority remained dormant since the year 2017. Among them, according to the ledger, one account had a credit balance of Rs. 0.4 million, but according to the financial statements, the credit balance was Rs. 1.04 million. Therefore, a difference of Rs. 0.64 million was observed between the ledger balance and the financial statements in respect of that bank balance, but no comparison had been done to detect the said difference.	The bank accounts have not been operated in the last five years and after obtaining the necessary approval from the Board of Directors of the Urban Development Authority, the relevant bank accounts will be closed.	Activities should be carried out under proper supervision and attention to the bank balances and bank reconciliations and proper financial control should be established.

(b)	1528 cheques with a value of Rs. 49.33 million, which were more than 06 to 24 months were deposited in the bank, but had not been cleared as at 31 December 2019.	It was mentioned in the bank reconciliation statement that the deposits had not been cleared due to the direct deposit of money to the bank made by the concerned applicant to get plan approval under online system and due to some time taken in receiving the details related to the accounting of respective deposits to the authority. In the year 2020, arrangements have been made to adjust the existing values the accounts.	Methods such as a cord should be used to identify online deposits.

2. Financial Review

2.1 Financial Result

The operating result of the Group and the Authority amounted to Rs. 1,501 million and Rs. 1,086 million respectively for the year under review, while the corresponding profit of the Group and the Authority in the preceding year amounted to Rs. 1,318 million and Rs. 769 million respectively. Thus, it was observed an improvement of Rs. 183 million and Rs. 317 million in the financial result of the Group and the Authority respectively. Increase of other income by Rs. 424 million and decrease of other expenses by Rs. 75.4 million and decrease of financial cost by Rs. 27 million had been mainly attributed to this improvement in the financial results.

2.2 Trend Analysis of major Income and Expenditure items

Item	2019 Rs. Million	2018 Rs. Million	Difference Rs. Million	Per centage %
Income	2,581.6	2,711.29	(129.69)	(4.78)
Other Income	536.48	112.47	424.01	376.99
Administration Expenditure	3,736.05	3,654.28	81.77	2.24
Salaries	1,680.68	1,436.37	244.31	17.01
Travelling Expenses	33.47	15.43	18.,04	116.91
Health and Sanitation	129.57	108.27	21.29	19.67
Rental	88.51	67.59	20.91	30.93
Other Expenses	106.89	182.37	(75.48)	(41.39)
Projects Operating Cost	49.06	128.4	(79.34)	(61.79)
Financial Expenses	0.87	28.54	(27.66)	(96.92)
Local Bank Loan Interest	-	13.2	(13.20)	(100)
Tax	(0.007)	14.39	(14.40)	(100.05)

(a) Compared with preceding year, the income of the Authority was decreased by 4.78 per cent and this was mainly due to decrease in rental income by 10.19 percent. Also compared to the preceding year, other income had increased by 377 percent and this was mainly due to fact that there was a middle class housing sale profit of Rs. 460 million during the year under review.

(b) Administrative expenses had been increased by 2.24 percent, increase of salaries and wages by 17 percent, travelling expenses by 117 percent, health and sanitation expenses by 20 percent and rent charges by 31 percent increase had been mainly attributed for this increase.

(c) Compared to the preceding year, other expenses had decreased by 41 percent and for that, decrease of project operating expenses by 62 percent had been mainly attributed.

(d) Finance expenses were reduced by 96.9 percent and this was mainly due to 100 percent reduction in interest paid on loans from local banks and interest on lease cancellation during the year under review.

2.3 Ratio Analysis

Ratio	2019	2018	Difference
Current Ratio	1.04	0.93	0.11
Net Profit Ratio	2.08	28.37	13.71
Solvency Ration	1.60	1.50	0.10

(a) Although the current assets ratio should be 2:1 in an institution, current assets ratio of the Authority was 1.04:1 in the year under review and there was an increase of 0.11 when compared with the preceding year.

(b) The net profit ratio which was 28.4 percent in the previous year had been increased to 42.08 per cent during the year under review.

(c) The solvency ratio of the Authority was 1.6 in the year under review and it had been increased by 0.1 compared to the preceding year. This was mainly due to the 57.8 per cent increasement of the loan amount given by the government for Urban Regeneration project and 12 per cent increasement in deferred lease liability during the year under review compared to the previous year.

3. Operational Review

3.1 Uneconomic Transactions

	Audit Observation	Comments of the Management	Recommendation
(a)	From the year 2008 to 2013 as capital expenses amounting to Rs. 3,830.87 million from government funds and amounting Rs. 851.2 million (USD 6.4million) under foreign loan had been funded for the construction of Magam Ruhunupura International Convention Hall under the Hambantota Development Project. Other than that, although the	A project which was operated under the consultancy service of the authority. While it was proposed to hand over to the relevant institute after completing the project in the year 2013, the management	Projects should be selected and implemented which can generate revenue to repay the foreign debt.

	Authority had spent Rs. 75.88 million as recurrent expenditure only from the year 2017 to 2019 to maintain the hall, an income of Rs. 15.89 million only had been earned from that project. Due to this it is observed that this project is economically ineffective.	activities are being maintained by the Urban Development Authority until it is handover.	
(b)	At the end of the year 1993,Rs. 92 million from the Authority and Rs. 120 million from the National Housing Development Authority had spent for the construction of apartments and shops for 99 years at an annual nominal rent of Rs.100 without charging relevant long term lease rent on a land of 1 acre 23.1 perches on Bambalapitiya Railway Station Road owned by the Authority. Urban Development Authority and National Housing Development Authority had started a joint venture called Ocean View Development Pvt Ltd to manage these properties. Even though this company had earned income by renting buildings, it had not been paid dividends as agreed to the Authority from the year 1993 to the end of 2019.	A dividend of Rs. 1.21 million in 2014 and amount of Rs. 0.44 million in 2020 had given to the Authority. After considering, relevant actions will be taken in the future by the management of the Authority for the companies that are not declaring dividends.	Actions should be taken to issue dividends as the Authority had invested Rs. 92 million.
(c)	Although a total of Rs. 3.87 million had been paid for consultancy service charges from the year 2014 to 2016 to establish ERP (Enterprise Resource Planning) computer system for an estimated price of Rs. 190 million, establishing this system had been suspended.	The technical evaluation committee had recommended to suspend the ERP system due to the changes occurred in the political environment during the year 2015. Actions had been taken to buy a new accounting system with the necessity of a computer system to maintain the accounting activities of the Authority. Because of this ERP system was not established.	Procurement should be done by identifying the specific necessities of the institute.

(d)	According to the paragraph 3.4 of the President's Office Circular No SP/RD/02/10 dated 03 February 2010,a large number of land given to the authority for urban development was not used for the assigned purpose but was used for other purposes or returned back to the original owner (divested) after many years. As revealed from a sample audit check 1000 acre estate at Millewa, 125 perches land in Olcott Mawatha Pettah belonging to a press, Dadella land in Galle and 03 acre, 02 roods, 03 perches land located at Rajagiriya, Sri Jayawardanapura road had been divested like this.	Land acquisition is done according to the powers of the authority for urban development activities and the land is disposed of for development only for the acquired purposes. In other cases, subject to the relevant approvals, the purpose of land acquisition will be revised and the land will be disposed of for development purposes. Also there are cases where lands have to be disposed due to the objections of the acquired land owners.	Objectives should be properly identified and land should be acquired.

3.2 Identified Losses

	Audit Observation	Comments of the Management	Recommendation
(a)	The Authority had spent Rs. 4.05 million for publishing advertisements in 13 newspapers to publish the projects implemented in the year 2018 by the Ministry and the subsidiary companies under the Ministry.	This Authority had received approval to provide 6 percent income as consultancy fees for the consulting work provided for Sukitha Purawara Project which was implemented under the line ministry with the aim of urban development. Therefore, the expenses incurred using these fees have been paid by the Authority on the approval of the Director General.	Should act according to the objectives of the Authority.
(b)	For a 5year project period ,Colombo Fort Tranwork Square land had been leased for a long term in the year 2012 to a locally incorporated foreign private	When disposal of land owned by the Authority on lease basis the amount of the lease value is	In entering into the agreement, the Authority should not incur any

	company for a implementation of a mixed development project at a price of Rs.4999.7 million which was less than the market value. As this development project had not started until 2018 the agreement entered with the above company had been amended and the started date had changed as 04 July 2018 and the completion date was changed to July 2023. According to that although the pre-lease value dated 04 July 2018 and the market value difference of Rs. 1,290.04 million was decided to charge by the Authority it had not been charged until 30 November 2022. Also, Although it is included in the clauses of the lease deed that the difference between the market value of the land determined by the government valuer and the value given at the time of issuing the deeds related to the condominium property units to the home owners is to be paid by the lessee to the lessor, it was not specified in the contracts whether the difference in market value should be paid to the market value existing on the date of signing original lease agreement or to the market value existing on the date of giving the deeds to the home owners for the condominium units. Therefore ,it was observed that the advantage of the increase in the sale price prevaling on the date of sale of the houses is entirely given to the contractor.	determined according to the relevant lease period. The 99 years lease value valued by the chief valuer had been paid by the investing company to the Authority .Rs 1250.4 million ,which is the difference between the market value of the land and the lease value, will be prorated according to the rate calculated on the total floor area, which will be disposed on the basis of sale based on the floor area of the housing units constructed in the development project, and will be charged at the time of issuing the sale certificate for the hosing units. As this is the method of executing in disposing of lands for mix development activities the Authority does not have the ability to collect the total amount apart from it.	financial loss.
(c)	Since the year 2007, a land beside Petta D.R. WiJayewardene Avenue of 2 arched 2 rood 21.4 perches belonging to the Authority had been given physical procession to the Rank Entertainment Holdings limited company for a mix development project. After 02 years	As per the decision of the board of directors which had already been communicated to the lessee (March 2022),the decision has been appealed for reconsideration by referring a reply letter dated 22 April 2022.After	Relevant developments and supervisions must be done after the land acquisition.

that is 12 August 2009 the approval of the Cabinet had been taken. After that on 18 February 2010 for 30 years on long term leasing basis, the possession of this land was in written and handed over on an estimated value of Rs. 1,300 million under the memorandum of understanding. Although possession of the land should not be given until completing the lease payment , it was observed that, on the contrary, had been possession of the land handed over the when lease was not paid. Since August 2009 until 25 September 2013 at 07 occasions only a value of Rs. 557 million had been deposited by the company. The company had not carried out any development work on the land as per the above memorandum of understanding and had been earned income from the year 2007 by using the land as a car park.. Contrary to the memorandum of understanding signed on 25 March 2013 and despite non-payment of income earned and related payments, on 16 February 2017 on approval to lease the assessed value of Rs. 3620 million from the chief value dated 12 August 2016, another company owned by the owner of the original company had been entered into an agreement for Rs. 3.352 million. According to the request that the above company should pay interest on the Rs. 557 million paid for the land from 2007 to 2017 for the purpose parking vehicles , due to the agreement with the investors to reduce the value of chief value by Rs. 330 million without the formal approval of the

obtaining legal advice in this regard ,the necessary work will be done by referring to the Board of Directors.

	Audit Observation	Comments of the Management	Recommendation
	Authority's Board of Directors. Any action had not been taken in respect of responsible parties regarding the loss incurred to the Authority and no development work had been done on the land till 30 September 2022.		
(d)	A land of 56.5 perches in Colombo 05 Mayura Place belonging to the Authority had been decided to rent out to private institute for a period of 06 months from June to November 2016 at an estimated monthly lease rent of Rs. 0.6 million. But the Deputy Director (Lands),who was the Chairman of the Internal Valuation Committee at that time, had deducted 70 per cent of the valuation amount without giving any reasonable reason and without following an accepted valuation method. That is, it was observed that the monthly rent was reduced to Rs.0.2 million and this land was given without entering into a formal lease agreement. Although the lease had been given for a short period of 06 months, without having the approval of the Board of Directors, action had been taken to extend the lease period for a 03 1/2 years until 31 December 2019. It was observed that the total loss incurred by the Authority due to non-payment of formal assessed rent during the period of use of the land by the lessee more than Rs. 20 million (including VAT and NBT). Actions had not been taken to recover the loss until 2022 by identifying the responsible parties.	In this regard ,the Authority was referred to the Administrative Division for an internal investigation on 30 December 2020.It has been informed that conducting internal investigation is a useless task as the relevant officers are not in the service at the moment. Based on the said instruction, complaints have been filed in the Commission to Investigate Allegation of Bribery or Corruption and the Department of Criminal Investigation regarding to the loss incurred to have been caused to the authority in allotment of the land and and related investigation are going on.	Must act without occurring financial losses to the Authority.

3.3 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	It was mentioned that the	While a lease agreement had not	Corrections should be

	maximum duration that the lease can be given for 30 years according to the order 196(07) of Land Acquisition Act. However, after the approval of the Urban Development Act 1978 No. 41 the lease period can be decided by the Urban Development Authority. But according to the schedule given for an investment property of Rs. 1,516.3 million included in the financial statements of 2019,and before the establishment of the Authority, the year 1900 was mentioned as the year of the lease, and it was problematic that 99 years,50 years, and 30 years were given as the basis of the lease.	implemented on lease liabilities stating the year 1900, only a transaction had been stated. As it is essential to computerize the year of issuing leases it had been computerized as the starting date as 1900. The lease liabilities have been implemented many years ago and since no lease agreement had been excecuted till now, only the transaction have been computerized , so a committee has been appointed to correct the deferred lease schedule regarding the lease liability, and the necessary corrections are being taken after receiving recommendations from the said committees.	done.
(b)	The possession of the land with quarters next to the Siribopura administrative complex had been handed to the district secretariat in Hambantota by the Sri Lankan Mahaweli Authority. Later, the governor in charge of Hambantota Administrative District had requested from the Urban Development Authority to hand over the housing complex to them. The Committee on Public Accounts held on 25 October 2012, had also decided that the Authority should hand over the houses to the Hambantota Administrative	The administrative complex and quarters were built on the land plot thus acquired and later, the decision of the Cabinet had been received to hand over the land plot extent of 2.3588 hectare on which the quarters were built and the two land plots extent of 1.6056 hectare reserved for future commercial activities to the Authority without charging any money. There is no information or letter in the file regarding the decision taken by the Committee on Public Accounts on 25 October 2012 to hand over the land to the Hambatota District Secretary within two months. Therefore, this Authority was not informed about it and this Authority was not informed to include	Cabinet papers should be prepared by considering the recommendation of the Committee on Public Accounts.

	District Secretary within two months, but the possession of the property had not been transferred. Despite the situation, a cabinet memorandum dated 17 January 2014 and No. අමප/14/0101/503/005 was submitted and approved for taking over this housing complex to the Urban Development Authority. None of the information about the decision of the Committee of Public Accounts had been included in that memorandum.	information in the relevant cabinet paper regarding the decision of the Committee on Public accounts. After receiving the approval of the relevant Cabinet of Ministers, the special grant under Section 6(1) of the Government Land Ordinance Act for the portion of land where the quarters are located ,has been received by the Authority on 31 June 2021, the current ownership of the land belongs to the Urban Development Authority	
(c)	While the Peliyagoda warehouse company was decided to liquidate in the year 2012 the liquidator has decided to continue the business activities normally again in the year 2014. However the board of directors of the Authority had decided to take over the warehouse buildings to the Urban Development Authority since 31 August 2017. By 31 October 2022, the buildings belonging to this warehouse complex, whose cost was Rs. 376.43 million, had not been handed over to the Authority in writing. According to that, this asset had not been accounted until the year 2022. However, since August 2017,the Urban Development Authority had been generated and accounted a	This warehouse complex is further shown in the books of account of the PWCC company and cannot be taken into the accounts of the Authority until the liquidator presents the liquidation accounts. However, subject to the submission of liquidation accounts, since the management of the warehouse complexes has been handed over to the Urban Development Authority from 31 August 2017, this rental money has been generated and the amount has been included in the accounts of the Urban Development Authority.	Necessary interventions should be made to complete the liquidation proceedings.

	monthly rental of Rs.62.69 million by renting out these warehouse complexes as at 31 December 2019.		
(d)	While acquisitioning the Dadella land of 16 acres 03 roods 0.57 perches (6.782 hectares) at the beginning of 2006 to construct the International Cricket Ground and Sport Complex at Aloysius National School ground under the Galle urban development project in Galle there had been houses, farms and businesses. However, while the land had been taken over by the gazette notification on 14 August 2007, the physical possession had been obtained on 10 September 2007. On 21 November 2006, in a discussion chaired by His Excellency the President, it had been decided to establish the International Cricket Stadium in the same place as it is currently built. According to that it was observed that the Dadella land had been removed with the intention of using it for that purpose. Furthermore, in the undated Cabinet Memorandum, it was only stated that these lands were planned to be acquired for the construction of the Galle International Cricket Stadium, the construction of the stadium for Aloysius College, etc, for the	In order to acquire land ,a rough valuaion was called by the internal valuation committee on 25 September 2006,and according to the valuation report dated 07 December 2006,based on the valuation amount of Rs.43 million ,07 December 2006 the order under the second paragraph of the Land Aquisition Act to prepare the land acquistion documents was published on 26 February 2007. In the discussion held with his Excellency President on 21 November 2006, it was revealed that, it was decided to use the land in front of the lighthouse for the Galle St.Aloysius playground and other development activities, so it was decided to acquire the land. Rs. 368.81 million under treasury provision and Rs. 281.56 million as compensation and interest had been paid. The original purpose of "constructing an international cricket complex" has been revised to "construct a sports complex"	In taking over the land that is being used economically ,the need should be properly idntified and dealt with accordingly.

	development of Galle City, an amount of Rs.400 million had been requested from the treasury to settle the compensation for the completion of the land acquisition process without mentioning that the projects had been stopped by that date, and Rs.281.569 million had been paid as compensation and interest by 13 July 2021.As of 13 July 2021,from the acquired 16 acres and 3 roods of land, most of which remained idle.		
(e)	Since the year 2013 until 2021, 13,580 houses had been constructed and handed over to low - income families by expending Rs. 48,090 million under the Urban Regeneration Project of 21 sub projects. As the Condominium Management Authority certificate had not been obtained, out of the houses for 12,875 houses the maintenance activities had been unable to assign for house owners, due to that the Authority had to spend a large expense for maintenance activities. Although many years have passed since the houses were handed over, the Authority had not taken steps to get the condominium certificate by rectifying the reasons for not getting the Condominium Management Authority Certificate for those houses in accordance with section	While most of the lands used for this were not owned by the Authority, and the acquisition of those lands to the Authority was a long process, housing complexes were built and relocation work was expedited. In the meantime, arrangements were made to obtain condominium certificate. In some housing projects, there have been delays in obtaining the compliance certificate due to the completion of one or more buildings among the proposed buildings, but the non-completion of other buildings. Actions had been taken to obtain the condominium certificate for 06 housing projects. At least 50 per cent of the right must be vested by legal deeds to form management corporations after obtaining condominium certificates. The current practice is to charge equal monthly installments from home owners for thirty years and the transfer the ownership through a deed. At present, the housing policy	Actions should be taken to minimize the expenses incurred by the authority.

	3(2) of the Common Amenities Board (Amendment Act), No.24 of 2003.	of the Urban Regeneration Project is being followed up again, and according to the current system ,even if approval is obtained for condominiums, The Urban Development Authority cannot be freed from the management of housing projects.	
(f)	Although the construction of flats for the dwellers who were occupying in the land belonging to the Slave Island Redevelopment Project, scheduled to be completed during the year 2015, the related project had been delayed due to the delay of the contractor entrusted with the construction work by the land developer. As a result, sum of Rs. 66.69 million had been paid by the Authority to the consulting firm of the respective construction work as the additional consultancy fee for the year 2017 amounting to Rs. 5.49 million and as a monthly rental of Rs. 61.19 million for the dwellers who occupied in the said land, until giving them flat units. However, that amount had not been reimbursed from the land developing company up to the 30 June 2022.	As stated in the section 07 of the memorandum of understanding entered into between Tata Housing Development (Pvt) Ltd, SG18 Reality (Pvt) Ltd and the Authority on 15 March 2012, the above two organizations are required to pay rent for temporary occupancy for a period of two years or to pay compensation till completion of construction or till the later of both. Also, the payment of temporary rent and the payment of expenses related to the evictions shall be reimbursed within a period of one month after the evictions and all of the above expenses shall not exceed US $ 3 million. Tata Company has refused to pay the rent for the rest of the period stating that the amount of US$ 3 million mentioned in the memorandum of understanding has been paid, so there is a problem in reimbursing the additional consultancy fees and temporary rent from the developer company.	The exact reason for the delay and the contracts with the land developers should be reviewed and the ability to charge further expenses should be investigated and the relevant constructions should be completed promptly.
(g)	Despite the fact that the housing beneficiaries of Angoda Lake Crist housing project, which had completed 500 housing units in 2018, have paid an amount of Rs. 816.3 million to the Urban Development Authority, the	Before issuing the transfer deeds to the respective house beneficiaries, it should be resolve the problematic situations in the condominium plan and then the condominium declaration deed should be registered in the Land Registration Office. At present, all the work related to the	Necessary actions should be taken to provide the title deeds to the housing beneficiaries on the due date.

	transfer of legal title to those residents had not been done until the end of September 2021. The Condominium Authority's certificate for this project also had not been obtained until the end of 2021.	registration of title deeds has been completed and the deeds have to be registered at the Land Registration Office.	
(h)	Three plots of lands extent of 3 acres, 2 roods and 3 perches located at No. 294/800 and 953/1 in Sri Jayewardenepura road, Rajagiriya had been acquired by the Urban Development Authority on 09 October 2013 for the implementation of an urban development project including financial and administrative institutions. But the land thus acquired, to the extent of 2 acres, 2 roods and 1 perch had been divested to the original owners on 02 February 2015 and 18 November 2016. The rest of the land extent of 1 acre and 02 perches was valued at Rs. 213.21 million under working progress as at 31 December 2019, but the land had not been used for any development work by the date of 30 June 2021.	According to the government policy of developing Sri Jayewardenepura Kotte as the administrative capital city, the Authority has identified this unused land in the year 2013 as a suitable site for the construction of a complex of financial and administrative institutions. On 09 October 2013, 03 plots of land had vested to the Authority under the 38 (a) Interim Directive of the Land Acquisition Act. Out of this land, the largest portion of land mentioned under sub item 02 has been divested to the original owners. To achieve the current government's policies and development goals, the plots of land have been reacquired under Interim Directive 38 of the Land Acquisition Act, to the Urban Development Authority on 17 February 2021.The Authority will act to develop this land in the future.	A formal policy should be established nationally for Urban Development.

3.4 Operational Inefficiencies

Audit Observation	**Comments of the Management**	**Recommendation**
In the year 2014, under the 99 year lease, the land extent of more than 03 acres in Rajagiriya had been given to an investment company for implementation as a mixed	The investment company which was identified for implementing a mixed development project on the Rajagiriya land paid an amount of Rs. 345 million as a	The Authority should monitor that the land transferred according to the agreements, is used for the purpose for which it was

development project. But on failure to pay the valuation amount, the original investor was cancelled and re-assigned to another investor. However, even by 31 October 2022, the relevant development work had not been done on that land.	confirmation fee to the Authority on 30 October 2014. The decision to lease the said land to the said company was cancelled as per the approval of the Board of Directors due to failure to pay the amount as per the chief valuer. The company filed a case against this Authority. Later, according to the decision given by the court, it was decided to deposit the amount of Rs. 345 million in the court, which the said company had arranged to pay to the Authority. Later, action had taken to lease to another company on a long term lease basis.	transferred.

3.5 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
The owner of the lease had illegally sub-leased the permanent shops on the land of 9 acres 03 roods and 27 perches where the Charmas Granary situated in Pettah, which is owned by the Authority, contrary to the conditions presented during the call for quotations to lease the land. It was observed that the Authority not taking proper course of action for this is indirectly giving approval for it. It was observed during the physical inspection that these sub-leases had been granted until 31 May 2022. As a result, it was observed that legal issues related to this sub leasing of land may arise. As well, the lease term had been changed by the Authority on two instances after being leased. It was observed that, the opportunity available to get higher price from the leasing of land was lossed by the Authority.	By letter dated 05 December 2018, permission for sub lease has been revoked from the letter dated 13 February 2019. Accordingly, arrangements were made to remove the temporarily constructed booth. After recalling the quotations, it was observed that the car park on this land given to another tenderer for 02 years at a tax free monthly rent of Rs. 4.95 million.	The land owned by the Authority should be dealt with in a manner that provides maximum benefits to the Authority.

3.6 Under -utilization of Funds

Audit Observation	Comments of the Management	Recommendation
The Authority had been issued Rs. 10 billion worth of debenture in October 2010, redeemable in 05 years, with the objective of collecting funds for the national programme, which is a project of the Urban Development Authority Act, on the construction of 68,000 houses for the shanty dwellers in the city of Colombo. A loan facility of Rs. 11 billion was obtained from the Bank of Ceylon in 2015 to release that debt. Rs. 8.5 billion had been obtained in the year 2017 through the treasury allocations to pay off the loan taken from Bank of Ceylon. However, actions had not been taken to development of 142 acres in extent of land in the city of Colombo and the preparation of a business plan in this connection according to the objectives of issuing the debentures, even after lapse of 05 years and out of the proposed 68,000 housing units, 12,657 housing units had been constructed and from that only 8,407 housing units had been handed over to the general public. Further, cabinet approval for the issuance of Rs. 25 billion debentures for the proposed housing project was again obtained on 10 September 2020.	24 housing projects consisting of 14,607 housing units have been constructed on an area of 23.4036 hectares under the national programme to construct 50,000 permanent houses for the slum dwellers in Colombo city, of which 5,577 housing units have been constructed using the land freed under the Urban Regeneration Project. So far, construction work has started to provide 7,334 housing units for the slum dwellers. Also, by providing 4,294 housing units for various government project as at 31 December 2021, the direct contribution has been made to release land required for government development activities. Cabinet approval to issue debentures was obtained for housing projects proposed to be constructed at an affordable price, and the debenture issuance had not been done.	Project should be implemented as planned and funds should be utilized in a beneficial manner.

3.7 Delays in Projects or Capital Work

	Audit Observation	Comments of the Management	Recommendation
(a)	15 Projects amounting to Rs.1.3 million had been started in the year 2017 and included under work in progress in the	After obtaining the relevant approvals, action will be taken to	After a proper feasibility study, project should be identified and spent.

	financial statement of the year under review. Those projects had been abandoned by May 2022.	remove these projects from the books.	
(b)	In the West Bank of Beira lake Development Project with an estimated value of Rs. 400 million, consisting of 05 projects that started in January 2018 and proposed to be completed by 31 December 2019,One project worth Rs. 20 million had not been implemented and the physical performance of a project worth of Rs. 95 million was about 50 per cent as at 15 April 2022.	Although the allocation were allocated for the project in the year 2021, estimates were prepared and completed by June 2021. It resulted in delay in the award of contract and failed to achieve the required physical progress. The new project award on 14 October 2021 and the completion date is 15 April 2022 and so far, 50 per cent progress has been achieved.	Arrangements should be made for timely completion of the initiated projects.
(c)	The Authority had spent Rs. 77.48 million for the construction of the Jaffna Inn, which was started in the latter half of the year 2013, and due to the suspension of funding for this project, the construction work of the project had been abandoned.	With the new government coming to power in 2015, it was temporarily suspended until 2020. The current management has paid special attention and obtained the approval of the Department of Coastal Conservation and necessary steps are currently being taken to carry out further work, with the financial contribution of the private sector and as a private public partnership.	After feasibility study, plans should be made so, that the project can be initiated and carried through to completion.

3.8 Procurement Management

	Audit Observation	**Comments of the Management**	**Recommendation**
(a)	According to paragraph 4.2 of the	The master procurement	A master procurement

	Government Procurement Guideline, the Authority had not been prepared master procurement plan including the procurement activities for the next three years and, also the detailed procurement plan for the year under review.	plan for the year 2019 was prepared according to the government procurement guideline and the approval of the line ministry had been also received for it.	plan for the next three years should be prepared and acted accordingly.
(b)	During the procurement process, the Authority had been awarded contracts without completing the main points such as settlement of lands, preparing specific plans and having given contracts for the implementation of project on unsettled lands and paid advances for the same, obtaining performance bonds contrary to procurement guideline, Bonds have not been extended in time, detailed schedules of item by item price evaluations have not been included in the technical evaluation report, and evaluation have been made by only adjusting for total price, failure to include notes on evaluation methodology and decisions in technical evaluation report and instances of non-compliance with procurement guideline such as long term leasing without calling public quotations were observed.	In the future, technical evaluation committees will be informed and detailed documents regarding price adjustments will be included in the technical evaluation repots and action will be taken to correct the deficiencies that have occurred.	Guidelines should be followed while making procurement.
(c)	In accordance with paragraph 8.13.3 of the code of procurement guidelines, the head of the institution can approve a contract variation of up to a maximum of 10 percent of the original cost within the contingency provision up to a maximum of 10 per cent. However, if the contract variations exceed 10 percent of the maximum contingent provisions or there is no contingent provision, the total cost estimates shall be revised by the head of the institution in accordance with 8.13.4 of the procurement guideline and should be submitted to the levels of Authority specified in the procurement manual for	New features identified at the time of implementation of accounting system were implemented by them. In that case, according to the specification identified in the original bids, the quotations were submitted and, in that specification, only the items that are basically required in the accounting system are mentioned.	Procurement Guideline should be followed.

	approval. However, although variations of Rs. 4.83 million, or 60 per cent were observed for the additional work in the contract for the installation of the accounting system of the Authority, the variation had been paid on the approval of the Board of Directors without obtaining the approval of the relevant Authority levels as per the format mentioned in the 8.13.4 of the procurement guideline code.	Rs. 4.83 million were paid for additional work in each division on the approval of the Board of Directors of the authority due to the problems arising from the respective division in coming out the work.	
(d)	When entering into agreements with contractors for the purchase of good and services by the Authority, the date of commencement of the contract, the date of the completion of the contract, the conditions for charging late fees, giving advance money for starting work, and recovery of advance money, the instances of payment must be made, issuance of interim bills, amount of Withholding Tax etc., had not been entered into the formal agreement approved by the National Procurement Agency as per paragraph 8.9.3. of the procurement guideline code.	When entering into the agreement with the approved contractor, the relevant agreement contract data section includes the date of commencement of the contract, the date of completion of the contract, recovery for delays, days for payment etc.	Should be entered into Contracts in accordance with the procurement guideline as it can implement the legal provisions.

3.9 Resources Released to Other Organizations

	Audit Observation	Comments of the Management	Recommendation
(a)	According to the paragraph 8.3.9. of the Public Enterprises Department Circular dated 2 June 2003, the assets owned by public enterprises cannot be released to the line ministry or other government institutions, but contrary to that the camera equipment purchased by the Authority at a cost of Rs. 2.31 million had been given to the media unit of the ministry in the year 2018. After, it was observed that the said assets have been given to the prime minister’s media unit as per the request made in accordance with the letter PMO/2/17/විවිධ and dated	The camera equipment owned by the Authority has been issued for use in the name of an employee working in the media unit and the employee was attached to the Prime Minister’s Office on a temporary basis, but has been temporarily released to report back to this Authority from 17 May 2022	Release of assets should be done in circular manner.

29 June 2020 sent by the Prime Minister's Office.

3.10 Human Resources Management

	Audit Observation	Comments of the Management	Recommendation
(a)	According to paragraph 9.3.1 of the guidance for Good Governance (PED-12) of Public Enterprises and Management Service Circular No. 30 dated 22 September 2006 and Public Administration Circular No. 06/2006 dated 25 April 2006, a performance-based promotion system had not been introduced for the Authority. Furthermore, after placing the posts in a new salary structure and by preparing a recruitment and promotion procedure, the recommendation of the ministry and the department of Public Enterprises and the approval of the National Salaries and Cadre Commission had not been obtained to implement the proposal unit 31 May 2022.	A recruitment and promotion procedure including a performance based promotion system for the Authority had been prepared and forwarded to the Management Service Department for approval after obtaining the approval of the Authority's Board of Directors and the Line Ministry.	A recruitment and promotion procedure including a performance-based promotion procedure for the Authority should be developed and approved.
(b)	Approval was sought from the Department of Management Services for promotion to internal officers for vacant posts in the authority. In response to that, it was informed that since the Department of Management Service has not done any restructuring related to the number of employees of the Authority, and after approving the recruitment procedures of the Authority, it should proceed to provide promotions for the staff of the institution only according to the provisions of those recruitment procedures. But on the approval of the Board of Directors 10 new director positions and 10 officers had been promoted.	10 officers have been promoted to director positions to meet the service requirement for the implementation of the 2018-2022 strategic plan based on the decision of the Board of Directors of the Authority dated 25 June 2019. Board of Directors' approval have been received.	By a restructuring related to the cadre, recruitment and promotion procedures should be prepared.
(c)	According to the Public Administration Circular No. 14/2008 dated 26 June 2008 and Public Enterprise Circular No.	The quotation have been invited to get vehicle on rental basis to the	Circular provisions should be followed, While providing transport

	PED/1/2015 dated 25 May 2015, officers who use private vehicles as their official vehicles cannot employ drivers from the authority. Nevertheless 20 officers of the authority employed drivers from the authority for their private vehicles and those drivers had been paid Rs. 3.67 million in the previous year and Rs. 8.026 million in the year under review only as overtime allowances.	officers who have not been given official vehicles of the Authority, and advertisement have been published on the website of the Authority and in the Silumina newspaper. After getting the vehicles on rental basis, arrangements will be made to remove these private vehicles.	facilities to the officers.
(d)	It had been stated in the disciplinary investigation reports that 02 officers of the Authority were charged with misconduct and after extensive disciplinary investigations were conducted, they were found guilty of some of the charges. The officers had been compulsorily retired in 2017, considering that they are close to 60 years of age, but they should be dismissed as the charges are serious misconduct under the second category of the Establishment Code. Those two persons who were found guilty after conducting a formal disciplinary investigation had been reinstated in service in the year 2019/2020 without following the correct procedure.	Appeals were made for reinstatement in service and an independent appellate inquiry had been decided to revise the disciplinary orders. Later, instructions had been received from the line ministry to take appropriate action as the Disciplinary Authority of the authority. Accordingly, a committee had been appointed to review the analysis mentioned in the investigation report, to transparently check whether the disciplinary investigation has been conducted properly.	Formal disciplinary investigations should be conducted and disciplinary action should be taken against officers according to the proper procedure.
(e)	Although the officers who receive monthly remuneration cannot receive allowances for attending the Board of Directors meeting, the former Chairman, Director General and Working Directors had been received allowances amounting Rs. 3.2 million from March 2015 to October 2020, contrary to the circulars. After being pointed out by the audit, the	I am informed that necessary steps will be taken to recover these allowances.	Only approved allowances should be paid as per the circular provisions.

	payment of further allowances had been stopped but the allowances paid earlier had not been recovered.		
(f)	According to the approved cadre of the Authority, 64 employees those who were not in the approved cadre had been recruited through a subsidiary company under the Authority, without calling application for 64 unapproved positions and assigned to the service of the Authority and had been paid a sum of Rs. 43.52 million and Rs. 46.34 million as salaries and allowances in the years 2018 and 2019 respectively. Also, 08 officers of the Authority were released on secondment basis to the subsidiary company of Urban Investment and Development Company.	On 08 August 2019 having the approval of the Board of Directors, notices were published and applications had been invited for the vacancies of town planners and enforcement officer on the website of the Authority. The applicants had participated in a written test conducted by the University of Moratuwa and interviews were conducted on 09 September 2019 and 17 September 2019 and had been selected for those positions.	As per the requirement of the organization, only the employees included in the approved cadre should be recruited.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
In terms of paragraph 5.1.2 of the Public Enterprise Department circular No. PED/12 dated 02 June 2003, a corporate plan had been prepared for 2019-2021. But in that corporate plan, the work to be done in each year was not identified separately and the start date and end date of the works, financial allocation, a review for the last three-years, human resources and management skills and the project carried out by the respective sector had not been identified.	The corporate plan (2022-2025) prepared by the authority has been prepared including the above information.	This should be prepared so that it can be properly managed, by incorporating the information mentioned in the circular.

4.2 Effectiveness of Management Information System

Audit Observation	Comments of the Management	Recommendation
Rs. 8.3 million had been paid for the installation of the existing management accounting system at present and Rs. 2.16 million had been paid for two years under 02 service agreements for maintenance and services till 22 July 2022. But it was observed that the, Comprehensive Income Statement and Statement of Financial Position as at 31 December 2019, Debtor/ Creditor age analysis, Debtor/ Creditor reconciliation statements, calculation of annual depreciation, VAT schedules (Including sub office), Investment Property Register, fixed deposit register for given time period, dishonored cheque schedule, Bank Reconciliation etc. could not be obtained from this management accounting system.	Improvements should be made to get this information through the accounting system will be done as soon as possible.	The management accounting system should be developed to meet the requirement of the Authority.

4.3 Environmental Issues

Audit Observation	Comments of the Management	Recommendation
After the landslide of the Meethotamulla solid waste dump in 2017, it was planned to build an urban park under the Meethotamulla Regeneration Project. Accordingly, the contract for leveling the garbage dump from 30 meters to 12 meters, applying a blanket layer and installing greenhouse gas emission units had been awarded to a private entity for Rs. 269.5 million on 09 June 2020. The Authority had paid an amount of Rs 432.94 million for this project and although the completion certificate had been issued on 25 November 2020, a park had not	Under the technical and scientific advice and supervision of the National Building Research Organization by the Urban Development Authority, the stabilization of the garbage dump to collect the wastewater (leachate) in a systematic way, and to complete the first phase of the construction of the pipe system and 08 out of 31 proposed gas wells have been installed to release the harmful gases generated inside to the environment and about 05 per cent of the land fill had been covered with a layer of soil as a pilot project. For that, the Authority has currently incurred a cost of around Rs. 455 million.	The project should be completed in a manner by taking necessary further action.

been built as planned. It was also observed that the site of stabilized/compacted waste is being without proper management and supervision. Furthermore, it was observed during the physical inspection on 23 December 2021 that the gas collection system through the continuous gas emission center and preventing wastewater from entering in to the canals and ground water installed at this place has been abandoned.

The necessary procurement process has already been initiated to complete the rest of the work in a Public-Private Partnership.

The possibility of implementing the investment project presented by the Board of Investment is being studied to fully recycle this garbage dump and develop this entire land as a logistics center with public facilities as above.