Urban Development Authority & its Subsidiaries - 2020

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the consolidated financial statements of the Urban Development Authority ("The Authority") and its Subsidiaries ("The Group") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to 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 described in the basis for Disclaimer of opinion section of my 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 of Opinion

My opinion is disclaimed based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my disclaimed 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 determines 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 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 or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Authority 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.

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

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

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

- Identify and assess the risk of material misstatement in 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 Authority's 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 obtain up to date of my auditor's report. However, future events or conditions may cause the Group 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 Group and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Authority 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 the maintenance of key accounting records such as general ledger, journal, journal voucher, and payment vouchers, are given below.

	Audit Issue	Management Comment	Recommendation
(a)	In examining the schedule relating to deposits of the clients made available to the Audit by the Authority, it was found that a sum of Rs. 6,042.68 million had been incurred by the Authority as capital expenses in excess of deposits of the clients in 04 instances up to 31 December 2020. Hence, the deposit balance of those clients had become a minus value.	As capital expenses had been written off against the deposit balance of the clients, the said minus value had resulted in. Corrective measures will be taken on the minus value of the deposit balance by 31 December 2021.	The accounting process should be prepared in a manner that capital expenditure of the clients' projects would be correctly identified.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with the Reference to Particular Standard	Management Comment	Recommendation
(a)	Sri Lanka Accounting Standard 01 – Presentation of financial statements.		
(i)	Fair value of assets should be shown in the financial statements as required by the conceptual framework described in the Standard relating to the preparation and presentation of financial statements. Nevertheless, some of the investment properties of the Authority (properties acquired, housing projects and properties owned by the Authority) had been assessed by the Authority in the year 2021 as Rs. 602,256 million to be effective from 31 December 2019, but adjustments on	Disclosures and adjustments relating to accounts are done through an external audit firm based on the assessment report on assets done in the year 2021. After completion of the said process, it is kindly informed that necessary action will be taken under approval of the Audit Committee and	Action should be taken to show the fair value of assets in the financial statements.

	that assessment value had not been made in the financial statements presented for the year under review; instead, the assessment had been disclosed only through a note to the accounts. The carrying amount of the investment properties of the Authority shown in the statement of financial position, amounted to Rs. 96,706 million as at 31 December 2020, thus observing a difference of Rs. 505,550 million between that value and the value of investment properties assessed as at 31 December 2019. As such, it was observed that the fair value of assets had not been shown in the financial statements.	Board of Management of the Authority.	
(ii)	According to Paragraph 28 of the Standard, the total value of liability for deferred rent should be recognized at the time of preparing the financial statements on accrual basis although payments are made in installments or at once by the lessees. Nevertheless, it was observed in audit that the said liability had been recognized on cash basis with respect to the leased properties valued at Rs. 10,439.68 million as at 31 December 2020. Although, deferred lease value for another 216 leased properties was not recognized and included in the financial statements.	The relevant corrective measures will be taken in due course.	The total value of deferred rent should be identified at the time of entering into agreement.
(b)	According to Sri Lanka Accounting Standard 15, the revenue or expenditure resulted in through agreements with clients should have been separately identified. But, the revenue or expenditure relating to clients' projects had not been so recognized by the Authority. Rather, the total of Rs. 4,298.15 million being the expenditure on those projects had been deducted from the deposit amount of Rs. 4,679.65 million	The Urban Development Authority does not follow a methodology to separately identify the profit or loss resulted in from the clients' projects.	Action should be taken to separately identify the profit or loss of the clients' projects in accordance with provisions of the Standard.

	received from the clients as at the end of the year under review, thereby recognizing a balance as at the end of the year under review. Furthermore, clients' projects nearing completion had not been recognized as works in progress.		
(c)	Sri Lanka Accounting Standard 16 – Property, Plant and Equipment At the end of each year of finance, every institution should review the scarp value and useful life of its assets in terms of Paragraph 51 of the Standard; and , in case of the expected values deferring from the previous estimates, corrective measures should be taken on the estimated error in terms of Sri Lanka Accounting Standard 08. Nevertheless, action had not been taken by the Authority to review the scarp value and useful life of assets of which the written off value amounted to Rs. 2,909.53 million as at the end of the year under review. Moreover, assets worth Rs. 729.20 million owned by the Authority, had been depreciated in full, and although such assets were still in use, no suitable measures had been taken to correct the estimated error relating to those assets.	Agreed. Vehicles of the Authority still in use at present despite being fully depreciated, will be revalued in the year 2023. Furthermore, the process of revaluing the other fixed assets in terms of categories, will be commenced in due course. As such, the relevant updates will be made.	The useful life of assets should be reviewed at the end of each year of finance, and the necessary adjustments should be made accordingly.
(d)	As for the purchase of 28 Cabs by the Authority through finance lease contrary to provisions of the Sri Lanka Accounting Standard 17, current liabilities and non-current liabilities had been overstated by sums of Rs. 11.88 million and Rs. 44.53 million respectively as the balance of Rs. 56.41 million in the suspense interest account had not been deducted from the loan balance existed as at 31 December of the year under review.	Action will be taken from the year 2021 to correct the relevant note to the account.	The balance of interest in suspense account should be deducted from the lessors.

(e)	Amortization on Government grants valued at Rs. 357.39 million received by the Authority from the Treasury as at 31 December of the year under review had not been computed in terms of Paragraph 12 of Sri Lanka Accounting Standard 20 relating to Government grants, and no information whatsoever as to the purpose of those grants, had been made available to the Audit.	Due to difficulty in collecting information on assets constructed with respect to the grant, no amortization had been made on the grants valued at Rs. 357.39 million.	Government grants should be accounted for in terms of Sri Lanka Accounting Standard 20.
(f)	Sri Lanka Accounting Standard 36 – Impairment of Assets		
(i)	In case of decline in the value of assets, a test for impairment should be conducted on the relevant balances in terms of Paragraph 12 of the Standard. However, the value of Rs. 350.58 million relating to 11 projects abandoned halfway, had been continuously brought forward under work in progress account since the year 2018. But, Impairment tests had not been done in such a manner.	The acquisition of lands with respect to the projects in Meethotamulla and Kotuwegoda valued at Rs. 349.67 million, has not been completed. Current progress of the other projects will be obtained from the land division; and, in case that such projects are no more in progress, they will be eliminated from books under approval of the Board of Management and the adjustments in that connection will be made in the financial statements of the year 2022.	A test on impairment should be done in accordance with the Standard, thus the value should be accounted for.
(ii)	Values of impairment relating to investment properties had not been recognized in terms of Paragraph 09 of the Standard. Comparison of schedules on investment properties presented by the Authority as at 31 December 2019 and 31 December 2020, indicated that the value of 49 properties had increased by Rs. 1,319.85 million, but only a sum of Rs. 920.02 million had	By following the procurement process, a qualified external audit firm has been assigned as to how the effect caused on financial statements in the wake of increase in the value of assessed properties of the projects, be disclosed in	A test on impairment should be done and in case of impairment losses, adjustments should be made in the financial statements in that connection.

	been shown as addition of the year in the statement of financial position of the year under review relating to those properties, thus observing a difference of Rs. 399.83 million. Furthermore, the value of 12 investment properties had decreased by Rs. 4,651.72 million as against the preceding year though, no adjustments had been made in the financial statements relating to that decline, and reasons for those variations had not been made available to the Audit.	the accounts. Following the recommendations of the firm, action will be taken to make adjustments in the financial statements of the year 2021.	
(g)	According to Paragraph 21 of the Sri Lanka Accounting Standard 38, the intangible assets should be identified separately. Nevertheless, systems & software valued at Rs. 23.21 million belonging to the Authority, had been shown under Property, Plant and Equipment in the financial statements. Accordingly, cost of the Property, Plant and Equipment had been overstated by that amount whilst the intangible assets had been understated.	As pointed out in the audit, action will be taken to show the cost of systems and software under intangible assets in the year 2021.	The intangible assets should be separately shown in the financial statements.
(h)	Sri Lanka Accounting Standard 40 – Investment Properties.		
(i)	According to Paragraph 16 of the Standard, an investment property shall be recognized as an asset when the future economic benefits will flow to the entity with possible investment opportunities. Nevertheless, a sum of Rs. 508.86 million spent by the Authority on 13 projects implemented for development and beautification of townships without generating any revenue, Property and Plant of the Authority with a written-off value of Rs. 43.19 million as at 31 December 2020, and 03 projects valued at Rs. 849.27 million implemented on behalf of other institutions, had been accounted for under investment properties. Furthermore, in case of	The assets arisen from the sum of Rs. 10,099.67 million spent on 24 projects stated as other properties that had not generated revenue, were the improvements of capital. It has been agreed to include 03 of the 05 projects implemented on behalf of other institutions, into the clients' projects.	The investment properties should be identified in accordance with provisions of the Standard.

	properties proposed to be used for investments in the future, such properties should be brought to accounts as investment properties in terms of Paragraph 07 of the Standard. However, 37 acres of the land belonging to Parliament in extent of 1,167 acres had been allocated for development projects of the Urban Development Authority though, those land plots had not been assessed and brought to accounts under investment properties.		
(ii)	The fair value format given in Paragraphs 33-35 of Exceptions under Paragraphs 30, 32 (a) and 34 of the Standard, or cost format given in Paragraph 56 should be selected by an institution as their accounting policy. Except for an instance in which the fair value can not be measured accurately, the policy so selected, should be followed in accounting for all the investment properties in terms of Paragraph 53 of the Standard. Nevertheless, it was observed in the audit test check that certain investment properties had been shown to the cost, and other properties had been shown to the revalued amount whilst a total of the two values had sometimes been shown in the financial statements by the Authority.	The activity of making adjustments and disclosures in the accounts based on the report of assessment of assets for the year 2021, is done through an external audit firm. With the said activity being over, it is informed that necessary action will be taken under approval of the Audit Committee and the Board of Management.	As being recommended in the Standard, accounting policies should be selected and implemented in a manner that the fair value of assets is shown in the financial statements.

1.5.3 Accounting Policies

Audit Issue	Management Comment	Recommendation
Contrary to the Sri Lanka Accounting Standard 17 and Accounting Policy No. 1.4.6.7 of the Authority relating to lease income, the statement of financial position prepared by the Authority as at 31 December of the year under review, indicated 311 properties the lease period of which had not been identified; and the	It is expected to make the necessary adjustments to the accounting statements after verifying the accuracy of income, thereby showing in the financial statements of the year 2022	The lease income should be recognized in accordance with the Standard and accounting policy of the Authority relating to lease income.

consideration of lease thereof, totaled Rs. 840.93 million with no lease income whatsoever relating thereto been recognized. According to the information also furnished to the Audit by the Authority, the financial statements indicated 304 leased properties valued at Rs. 6,433.13 million of which commencement date of the lease period had not been mentioned, and a lease rent income of Rs. 2,048.95 million had also been recognized thereon for the year under review.

1.5.4 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Three debit balances valued at Rs. 628.51 million and 04 credit balances valued at Rs. 628.49 million included in the trial balance prepared by the Authority as at 31 December of the year under review, had not been taken into consideration in preparing the financial statements of the year under review.	Corrective measures will be taken in the year 2021.	The accounting process should be adopted in a manner that all the balances in the trial balance are included in the financial statements.
(b)	Expenses totaling Rs. 162,280.56 million incurred on 1303 projects implemented from time to time by the Authority since the inception of the Authority in the year 1979 up to 31 December of the year under review, had been shown as development expenses in the general ledger under 115 capital expenditure accounts. In the preparation of financial statements thereafter, those balances had been classified under 05 items of assets viz. work in progress, investment properties, lands and buildings, clients' projects, and completed houses, thereby preparing reports. Due to	It is kindly informed that a Committee will be appointed to make necessary changes in the system in that connection, and the balance sheet relating to the accounts of the year 2022 will be revised and presented with assistance of the Government Audit Unit.	The accounting process should be revised and amended in a manner that assets are indicated.

	this reason, it was observed that a proper and accurate procedure had not been followed in showing assets in the ledger. As such, it was further observed that the accounting system used by the Authority, could not be used directly in preparing the financial statements.		
(c)	As the carrying amount of all the assets included in the trial balance prepared as per the ledger of the Authority as at 31 December of the year under review, was not equal to the total of liabilities and equity as at that date, the difference of Rs. 2,147 million was shown in the trial balance under retained surplus account. However, that account was not shown in the general ledger of the Authority. Furthermore, the balance of the retained surplus account related to the period 2016-2019, whereas the balance of Rs. 73,478.73 million in the trial balance related up to the year 2015; hence, the total of those balances should have been equal to the cumulative profit as at 01 January 2020 shown in the statement of changes in equity given under statement of financial position as at 01 January 2020. Nevertheless, a difference of Rs. 10.26 million was observed between the two balances.	It is agreed with this statement. The sum of Rs. 2,147 million shown as “RETSUP” in the trial balance, indicates the total of the profits and losses reported by the Authority during each year between 2016 and 2019.	The accounting process should be followed in such a manner that the retained profit should be adjusted to the statement of financial position through the statement of changes in equity.
(d)	The sum of Rs. 2,098.2 million relating to 02 lands given on 99 year lease by the Authority in the years 2021 and 2022, had been considered as receipts of the years 2019 and 2020. Thus, that value had been recognized as deferred lease liability on cash basis in the	All the 03 instances included in the observation pointed out, have been accepted. Two of those instances will be rectified in the year 2021.	The deferred lease liability should be correctly identified and brought to accounts.

	financial statements of the year under review. As 11 leased properties valued at Rs. 7.15 million the lease period of which had expired, were also shown in the financial statements of the Authority, the deferred lease liability, was overstated by Rs. 2105.35 million as at 31 December of the year under review.		
(e)	No information whatsoever was made available to the Audit on the value of Rs. 6,497.52 million shown as "new lease rent and correction of errors" under the value of deferred lease in the statement of financial position as at 31 December of the year under review.	The new value of lease rent is Rs. 294.84 million. The value of debits accounted for under the corrections/journal entries was Rs. 319.18 million and the value of credits amounted to Rs. 235.90 million.	The Audit should be provided with all the information required to verify the existence and accuracy of balances including the deferred lease rents.
(f)	As identified in an audit test check, there existed 225 items of assets received by the Authority as donations from miscellaneous sources as at 31 December of the year under review. However, the value of those assets had not been assessed and shown in the financial statements.	Action will be taken to identify the value of assets received by the Authority as donations from miscellaneous institutions during the preceding years, and account for in the year 2022.	Assets received as donations should be assessed and shown in the statement of financial position.
(g)	The sum of Rs. 2,126.44 million being the value of projects that had been delivered to the clients by the Authority after completion, had still been shown under work in progress even by 31 December 2020. As such, the balance in the work in progress account had been overstated by that amount. As for 08 projects with a balance of Rs. 103.98 million as at 31 December of the year under review, only the location of the projects had been shown in the schedule of the work in progress	The housing projects worth Rs. 2,126.44 million completed in the year 2022, will be shown under classification of projects in the accounts. The names of the projects will be corrected in accordance with information maintained at the land division and presented along with the accounts of the year 2021.	The projects handed over to the client after being completed, should be eliminated from the work in progress. All the information of the projects implemented by the Authority should be maintained in an updated manner.

	without indicating any other information whatsoever.		
(h)	A sum of Rs. 200 million had been shown as the value invested in the Waters Edge Company- a subsidy of the Authority, in the financial statements presented by the Urban Development Authority as at 31 December 2020. Nevertheless, no shares had been issued by the said Company with respect to that value.	As shares have not yet been issued, the share certificate relating to the investment could not be furnished to the Audit.	Utilization of funds in this manner sans a share certificate, should not be deemed as investments.
(i)	The Lanka Rest Houses Limited, a subsidiary company of the Authority, had been assigned with the operations of rest houses owned by the Authority. Although the Company owned 31 rest houses as at 31 December 2020, they had not been brought to accounts as investment properties of the Authority. According to an assessment report of the Authority in the year 2020, two rest houses had been assessed to the value of Rs. 2,004 million, but the relevant values had not been accounted for; as such, the investment properties had been understated.	Although there were 31 rest houses being managed by the Lanka Rest Houses Limited, a subsidiary company of the Authority, ownership of 29 rest houses belonged to the relevant local authorities. The two rest houses belonging to the Urban Development Authority had been included in the assessment reports prepared in the year 2020.	All of the investment properties should be shown in the financial statements.
(j)	A sum of Rs. 11,831.83 million had been shown as compensation payable on lands under non-current liabilities in the statement of financial position presented as at 31 December 2020. However, as per information presented to the Audit by the Authority as at 31 December 2020, a sum of Rs. 8,894.27 million still remained as compensation and interest without recorded and hence, total liabilities of the Authority as at 31 December of the year under review had also been understated by that amount.	The relevant divisions/officers have been instructed to accrue or settle the expenses or revenue.	All the assets/liabilities existing as at the date of the balance sheet, should be correctly brought to accounts.

(k)	When the 04 balances totaling Rs. 366.55 million shown in the schedule of compensation payable furnished to the Audit as at 31 December 2019 had been brought forward, such balances had been eliminated from the schedule of compensation payable that had been presented as at 31 December 2020.	As the compensation payable as at 31 December 2019 had been paid in the year 2020 and abandoned in terms of Section 50 of the Land Acquisition Act, those balances had been eliminated.	The effect of abandonment should be recorded as a transaction of the year, and should not be shown by deducting from the opening balance.
(l)	The compensation and interest totaling Rs. 562.43 million payable as at 31 December 2020 shown under non-current liabilities and current liabilities in the statement of financial position, had not been correctly classified.	The corrections will be shown when re-stating the financial statements of the year 2020.	The non-current liabilities and current liabilities, should be correctly classified.

1.5.5 Preparation of Consolidated Financial Statements

	Audit Issue	Management Comment	Recommendation
(a)	As financial statements of the Peliyagoda Warehouse Company Ltd, had not been made available to the Audit since 2017, the accuracy of assets worth Rs. 267.88 million and liabilities worth Rs. 25.74 million pertaining to the said Company that had been taken into consideration in preparing the consolidated financial statements as at 31 December of the year under review, could not be verified in the audit conducted on the consolidated financial statements.	It is presented to you herewith in order to verify the accuracy thereof through the reports of accounts provided for the Urban Development Authority by that Company as at 31 December 2017.	Financial statements had not been furnished after the year 2017, and the financial statements that had been audited, should be used to prepare the consolidated financial statements.
(b)	As only the Urban Development Authority and Waters Edge Company Limited out of the 05 business entities under purview of the Group had made adjustments on gratuity as at 31	The parent Company had given instructions to the subsidiary companies in that connection. Accordingly, the said subsidiary companies shall	The consolidated financial statements should be prepared in accordance with recommendations given in the Accounting Standards.

	December of the year under review in terms of Sri Lanka Accounting Standard 19, it was observed that allocations for gratuity relating to the Group had not been done in accordance with Sri Lanka Accounting Standard 19.	take action to make the necessary adjustments in the final accounts with effect from the year 2023.	
(c)	In preparing the consolidated financial statements, the financial statements of the Waters Edge Recreations Company Limited of which 100 per cent of the shares had been owned by the Waters Edge Company Limited and 100 per cent of the administrative powers were indirectly within the scope of the Authority, had not been amalgamated with the Group as at 31 December 2020.	The said statement is agreed upon. The Authority shall prepare consolidated accounts for the year 2021 using the accounts pertaining to the Waters Edge Company Limited.	In the amalgamation process, all the subsidiaries of the Group as at that date, should be included in the financial statements of the Group.

1.5.6 Documentary Evidences not made available for Audit

Item	Amount Rs. million	Audit Evidence Not Furnished	Management Comment	Recommendation
Investment Properties.	92,931	The register of properties enabling the separate identification of relevant files, period of lease, date of commencement of the lease agreement, and the properties.	According to the nature of investment properties mentioned in the audit paragraph, such properties had been classified as lands and buildings; and, the periods of lease had been classified under 50 years, 99 years, 30 years and the monthly bases.	Attention should be specifically brought on the investment properties-the main asset of the Authority, in terms of proper control and reporting process.
Clients' Deposits	32.05	No information whatsoever is present for identification of the projects.	Source documents will be looked into to find information, thus making the necessary corrections as at 31 December 2021.	Information should be made available in a manner that the project can be identified.

1.6 Accounts Receivable and Payable

1.6.1 Receivable

	Audit Issue	Management Comment	Recommendation
(a)	A lease rent of Rs. 13.18 million remained due as at 01 February 2023 from 07 vehicle parks given on lease to external parties by the Urban Development Authority.	The income due from 07 vehicle parks amounted to Rs. 9.07 million as at 31 December 2020. That sum amounted to Rs. 13.18 million as at 01 February 2023.	Action should be taken for the prompt recovery of dues.
(b)	Following the Cabinet Decision No. 019/502/0970/22 dated 16 July 2022, a number of 101 housing units from the housing project comprising 500 units on WeeraMawatha, Pannipitiya, had been provided on a lease period of one year for the Members of Parliament under the basis that the annual lease rent of Rs. 69.45 million would be paid to the Authority by the Government. However, even by July 2023, the lease rent thereon had not been received by the Authority, and as no payments had been made to the Authority relating to maintenance charges payable by the households along with charges on electricity, water and gas, a sum of Rs. 9.88 million remained receivable by the Authority as at 31 July 2023.	A sum of Rs. 916,498.80 has been received out of the sum receivable monthly from the households for management of the said B building. Sums of Rs. 503,734.35 and Rs. 99,810.68 have been received in favor of electricity and water bills respectively. However, a considerable amount of Rs. 9.88 million with respect to management purposes and water and electricity bills remained due to the Authority.	Action should be taken for the prompt recovery of dues.
(c)	A total of Rs. 952.75 million comprising lease rents totalling Rs. 798.56 million and water bills valued at Rs. 154.19 million remained due as at 31 January 2023 with respect to 11,900 housing units given to low-income families under the Urban Regeneration Project.	As at 31 January 2023, the outstanding lease rent for 11900 houses amounted to Rs. 798.56 million and the outstanding water charges amounted to Rs. 154.19 million.	Action should be taken for the prompt recovery of dues.

(d)	In order to implement a mixed development project, the land at Transworks Square in Colombo Fort had been given on lease in the year 2012 at the value of Rs. 4,999.7 million for a period of 05 years to a foreign company established locally. An agreement had again been entered into on 04 July 2018 as development activities had not been commenced as agreed. However, the project had not been completed even though 05 years had elapsed by July 2023, and only the structure for 60 floors of the 81 storied building planned under first stage of the project, had been constructed. Owing to this delay, the sum of Rs. 1,290.04 million, being the difference between the value of previous lease rent and the market value as at 04 July 2018 – the date of entering into the agreement again, had not been recovered even up to the date of this report.	As had been reported earlier, the difference between the values of lease rent of the land and the market value, should be recovered when selling the housing units after completion of the housing project.	Action should be taken for the prompt recovery of dues.

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

Reference to Laws, Rules, and Regulations, etc.		Non-compliance	Management Comment	Recommendation
(a)	Section (k) of Paragraph 08 in Part II of the Urban Development Authority Act, No. 41 of 1978.	The policy on the use of urban lands to be implemented by the relevant local authority, should be prepared by the Urban Development Authority, but it had not been so done even by the end of the year under review.	The proposed land use policies for 85 divisions, have been prepared and handed over to the relevant local authorities for implementation. Furthermore, initial	The formulation of urban land use policy, should be expedited.

			discussions have been held with the Land Use Policy Planning Department for formulation of the national land use policy.	
(b)	Section 8 (a) in Part II of the Urban Development Authority (Amendment) Act No. 04 of 1982.	Of the 273 urban development areas published by the Authority thus far, development plans had not been prepared for 188 development areas even up to the date of this report.	Fifty four development plans have been published in the Gazette covering a part or 85 divisions published thus far by the Urban Development Authority.	The relevant development plans should be implemented in accordance with a specific Action Plan.
(c)	Paragraph 270 (b) of the Companies Act No. 07 of 2007.	Despite being stated that companies the business activities of which are suspended for a period of one year, shall be wound up with payments settled by the Court, the Companies established as subsidiaries by the Authority on 21 November 2014 namely, Urban Investment and Property Sales Company Ltd, Urban Development and Hotel Development Company, Orchard Urban Housing Development Company, and Waters Edge Hotel Development Company, are no more functioning at present. However, no action has been taken to wind them up by settling the debt.	Action is being taken to prepare proposals for each company and obtain approval once approval of the Board of Management is received in that connection.	The relevant companies should be wound up with debts being settled by following the proper legal procedures.
(d)	Treasury Circulars.			
	Treasury Circular, No. 842 dated 19	A Register of Fixed Assets had not been maintained as	Many of the information	A Register of Fixed Assets

	December 1978.	per Form General 287 with respect to all the fixed assets in use under ownership and custody of the Authority in accordance with the Circular.	contained in the Form General 287 relating to all the fixed assets, has already been recorded in the system; and, action will be taken to further update the system in the year 2023.	should be maintained properly in accordance with instructions given in the Circular.
(e)	Public Enterprises Circular, No. PED/12, dated 02 June 2003.			
	Paragraphs 10.2.4 (a) and (b)	The performance of liquidating the Peliyagoda Warehouse Company Ltd, fully owned by the Authority, should be supervised by the relevant Line Ministry, and the performance of the process should be reported tri-monthly to the Department of Public Enterprises of the Treasury. Furthermore, the maximum time to be spent on liquidation should be 06 months, and in case of failure to liquidate within such time, action should be taken to obtain approval of the Cabinet for an extension for the liquidation. However, the Company had not complied with those requirements, and the liquidation process commenced on 01 July 2012, had not been completed even up to the date of this report.	It is informed that action will be taken to expedite the liquidation process in accordance with instructions given by the Board of Management.	In case that the decision on liquidation is justifiable, the liquidation process should be expedited as per the relevant Circular; and, the non-furnished financial statements should be made available to the Audit as well.

(f)	National Procurement Guidelines 2006			
(i)	Guidelines 4.2.1 (a), (b) and (e), and 4.2.2 (a).	A main Procurement Plan for a period of at least 03 years to be continuously updated over a period not more than 06 months, and a Procurement Timetable describing the procurement activities, had not been prepared by the Authority.	A main Procurement Plan has been prepared for the year 2020; and, the dates of commencing and completing the procurement have been mentioned therein.	The main Procurement Plan and the Procurement Timetable should be prepared as per the Format covering the duration of the procurement.
(ii)	Guideline 8.10.1 and 8.11.4 (a) (i).	Information on contracts awarded by the Authority, had not been published on the website of the Authority or any suitable media. A database on the contractors who had defaulted on contracts, was not maintained.	The observation has been accepted.	Information on contracts being awarded by the Authority, should be published on the website of the Authority or other suitable media.
(g)	Circular No. PED 03/2015 dated 17 June 2015 of the Department of Public Enterprises.	Officers receiving monthly remuneration are not entitled to allowances when participating in the meetings of the Board of Management. However, contrary to the Circular, the former Chairman, Director General and Working Directors had obtained a sum totaling Rs. 3.20 million as allowances relating to the period from March 2015 to October 2020. Although such payments had been suspended with effect from December 2020, no action had been taken for the recovery of allowances already paid.	It was decided at the meeting of the Board of Management held on 22 June 2023 to inform the said officers on the sum to be recovered with respect to the allowance paid to them for their participation during the period from January 2013 to November 2020. It is informed that action will be taken accordingly.	Action should be taken for recovery of the payments made contrary to the legal provisions.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 1,879.21 million and the corresponding profit in the preceding year amounted to Rs. 1,208.50 million. Therefore an improvement amounting to Rs. 670.71 million of the financial result was observed. The reason for the improvement is increase in the revenue earned through the housing project for middle income groups by Rs. 613.76 million or 133 per cent in the preceding year.

2.2 Trend Analysis of the Major Income and Expenditure Items

Source of Revenue/Expenditure	Year 2020 Value	Year 2019 Value	Difference	Percentage of Difference in the Year under review as Against the Year 2019
	Rs.	Rs.	Rs.	(%)
Revenue				
Lease Rents	1,734,607,117	1,766,194,297	31,587,180	(2)
Interest Income	1,772,290,233	1,886,207,657	113,908,424	(6)
Revenue through Sale of Houses for Middle Income Earners	1,073,750,142	459,989,308	1,243,760,034	133
Expenditure				
Salaries and Wages	1,663,317,110	1,680,683,077	17,365,967	(01)
Repairs and Maintenance	328,023,808	353,992,812	25,969,004	(07)
Electricity Charges	205,246,922	188,487,645	16,759,277	09
Transport, Marketing, Security, and Other	109,748,188	216,588,788	106,840,600	(49)

The following observations are made.

(a) The net revenue earned through the sale of 608 housing units in Ovel View housing complex, Borella in the year under review, had remarkably attributed to the increase in sales income of the said houses for middle income earners.

(b) Due to advertising expenses incurred on houses for middle income earners, the total of transport, advertising, security and other expenses had increased in the year 2019. With those affairs reaching normalcy in the year 2020, the total of those expenses had decreased by Rs. 106 million equivalent to half of that of the preceding year.

2.3 Ratio Analysis

Ratio	2020	2019
Current Ratio	1.40:1	1.04:1
Quick Ratio	1.36:1	1.04:1
Gearing Ratio %	12	13

The following observations are made.

(a) The standard minimum for current ratio was 2:1 though, the Authority had not met that requirement. As such, it was observed that issues relating to working capital would occur. Nevertheless, a considerable improvement is indicated as compared to the preceding year.

(b) The quick ratio had fulfilled the standard minimum of 1:1 indicating a favorable trend with respect to liquid assets and liabilities.

(c) A favorable gearing ratio is indicated for the Authority during the year under review and the preceding year. According to the information given in financial statements presented to the Audit for the year under review, no obvious uncertainty is observed with respect to going concern of the Authority.

3. Operating Review

3.1 Uneconomic Transactions

	Audit Issue	Management Comment	Recommendation
(a)	The Authority had not received any dividend whatsoever from the dates of inception of the Urban Development and Investment (Pvt) Ltd established by the Authority in the year 2006 under an investment of Rs. 345 million and the Lanka Rest Houses Limited established in the year 2010. Furthermore, the Authority had not received any dividend for the year under review also from the Waters Edge Company, for which a sum of Rs. 236.81 million had been invested.	Officers of the Authority representing the Boards of Management of those subsidiaries, have queried in that connection at several meetings of the Board of Management of that Company. Nevertheless, the institutions sans dividends will be taken into consideration by the management of the Authority thus taking necessary measures in due course.	As over 50 per cent of the members of the Board of Directors of those Companies pertain to the Authority, action should be taken to ensure fair benefits from the investments.
(b)	As for the construction of Magam Ruhunupura International Convention Centre under Hambanthota Development Project, the main auditorium thereof had been constructed by Korea International Cooperation Agency (KOICA) spending a sum of US $ 6.4 million (Rs. 851.2 million) whilst the other constructions of the Center had been made by incurring Government funds totalling Rs. 3,830.87 million. In addition to that, the Authority had spent a sum of Rs. 93.38 million as revenue expenditure for maintaining the Center during 2017-2020 whereas only a	It is expected by the Urban Development Authority to maintain this Center as a public private partnership in due course. Despite the issues unfavorably affecting the generation of revenue, the costs incurred on mandatory maintenance and unavoidable servicing, remained unchanged. As such, expenses had been incurred in excess of revenue.	Alternative sources of revenue through the project should be looked into. Measures should be taken for security of the building and other resources.

	Audit Issue	Management Comment	Recommendation
	sum of Rs. 20.64 million had been earned as revenue during the same period. As such, it was observed that the said project was not cost effective.		
(c)	It was observed in the sample audit check conducted on the schedule given to the Audit with respect to the payment of compensation relating to acquisition of lands that a sum of Rs. 486.47 million remained payable as interest in excess of compensation totaling Rs. 252.25 million payable in 21 instances by 31 December of the year under review.	Until the inquiries on compensation are concluded by the Divisional Secretary and beneficiaries for compensation are identified, interest should be paid since the date of acquisition of properties in terms of Section 38 of the Act.	Proper coordination should be maintained with the relevant divisions in view of avoiding the payment of interest uneconomically.

3.2 Identified Losses

	Audit Issue	Management Comment	Recommendation
(a)	The land of 56.5 perches owned by the Urban Development Authority located at Mayura Place, Colombo 05 had been given on lease to a private institution for a period of 06 months from June – November 2016 at the assessed lease rent of Rs. 650,000. Without conducting Committee meetings, giving no fair reasons whatsoever, without following any standard assessment procedure, and without entering into any formal agreement, the Chairman of the internal Assessment Committee and the Deputy Director (Lands) at that time, had deducted the monthly lease rent to Rs. 200,000 equivalent to 70 per cent of the assessed value thus allowing the land for use. Furthermore, action had been taken to give that land on lease for a period of 3 ½ years up to 31 December 2020 by exceeding the 06 month period and without being approved by the Board of Directors. As the assessed lease rent had not been recovered from the lessee during the period of using the land, the loss sustained by the Authority amounted to Rs. 18.90 million; and considering the VAT and NBT payable on the lease	The measures taken by the Authority to recover the loss of Rs. 18.90 million with the coordination of Commission to Investigate Allegations of Bribery or Corruption, Department of Criminal Investigation, and Parliamentary Committee on Public Enterprises, have been described.	The loss so occurred, should be recovered, and the system of internal control should be strengthened to avoid recurrence of similar incidents.

	rent, the total loss was observed to be over Rs. 20 million. The loss, so occurred, had not been recovered from the responsible parties by 30 September 2023.		
(b)	Without calling for public quotations, the land of the Authority facing D.R. Wijewardana Mawatha, Colombo Fort, in extent of 02 acres 02 roods and 21.4 perches, had been provided for Rank Entertainment Holdings Private Limited in the year 2007 for a mixed development project sans an agreement and Cabinet approval. Approval of the Cabinet had been given thereon after two years on 12 August 2009, and on 18 February 2010, an agreement had been entered into for a long term lease of 30 years at the lease rent assessed to the value of Rs. 1,300 million. According to the legal policy of the Authority, enjoyment of the land should not have been given until lease rents are settled in full. Nevertheless, it was observed that enjoyment of the land had been given to the Company despite the lease rents not paid. However, only a sum of Rs. 557 million had been paid by the Company as lease rents in 07 instances during the period from August 2009 to 25 September 2013. But, income had been earned since 2007 by using the land as a vehicle park whereas no development activity whatsoever had been carried out by the Company even after the year 2010 contrary to the agreement signed by the Company. An agreement had been signed thereafter on 25 March 2013, but contrary to that agreement, the relevant payments had not been made to the Authority. Nevertheless, following the approval given by the Board of Directors on 16 February 2017, an agreement had been entered into with another Company owned by the owner of initial company to give the land on lease for 50 years	A preliminary investigation had been conducted in that connection by a Committee comprising internal senior officers such as Director (Legal), Director (Land Development and Management) and Director (Property Management and Recoveries) With recommendations thereof being presented to the meeting of the Board of Management held on 07 November 2022, a Committee comprising 05 members were appointed at the meeting of the Board of Management held on 17 November 2022. Further action will be taken in accordance with recommendation of that Committee.	Lands should always be given on lease for development purposes in accordance with laws, rules and provisions of the Authority. Furthermore, action should be taken against those responsible for the loss sustained by the Authority in connection with this transaction.

	again at the value of Rs. 3,352 million based on the value of chief valuer amounting to Rs. 3,620 million dated 12 August 2016. Following the request that an interest be paid to them on the sum of Rs. 557 million paid on the land relating to the period 2007-2017 during which income had been earned by using the land as a vehicle park, the Authority had agreed with the investor to deduct a sum of Rs. 330 million from the value of the chief valuer without proper approval of the Board of Directors. As such, no action whatsoever had been taken by the Authority until 31 December 2023 against the party responsible for the loss so sustained and it was also observed that no development activity whatsoever had been carried out on the land even up to 30 July 2023.		

3.3 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	When low income households had been resettled in housing schemes constructed under the Urban Regeneration Project, lands in 18 of their earlier settlements (estates) had been released. However, rights to lands in extent of 11.23 hectares relating to 06 of those estates, have not been taken over by the Authority thus far. Furthermore, of the lands pertaining to 22 housing schemes constructed under the Urban Regeneration Project by the end of the year 2020, the lands where 09 of those housing schemes had been constructed, have not been acquired by the Authority thus far. As such, rights to those houses could not be transferred to the beneficiaries and certificate of the Condominium Management Authority could not be obtained for those housing schemes.	Certificates had been obtained under Section 6 (1) for 13 out of 22 housing complexes.	The lands not acquired, should be taken over promptly. Action should be taken to obtain the certificate of the Condominium Management Authority for the housing schemes.

(b)	Only 14,542 housing units had been constructed out of 68,000 housing units proposed to be constructed under the Urban Regeneration Project implemented by the Authority in the year 2013; and, only 12,325 houses therefrom had been occupied as at 31 December 2020. A number of 1,946 housing units had been allocated for miscellaneous projects of the Government whilst 271 units remained idle. Due to failure in transferring rights of the houses to the occupants, management activities of the houses could not be done by establishing Management Committees. Hence, for the year 2020 alone, the Authority had incurred an expenditure of Rs. 230.93 million on electricity, security charges, water, cleaning and maintenance works of those houses. Due to defaulting on electricity bills, a fine of Rs. 1.2 million had also been paid by the Authority for the year 2020.	Action is being taken to provide 271 empty houses. Furthermore, construction of 951 housing units under the Urban Regeneration Project is nearing completion. However, due to non-receipt of provision from the Treasury, action is being taken to sell 450 housing units therefrom at the open market under self-financing for the sake of continuing the project, and Cabinet approval has been received thereon. Furthermore, action is being taken to construct 4,074 housing units under the project assisting the Urban Regeneration Project. It is also scheduled to commence the construction of 1,996 housing units for low income groups under assistance from China in due course.	Action should be taken to ensure the maximum success of the project being implemented.
(c)	In order to construct a financial and administrative building complex rendering services to the general public, the Authority had acquired 03 plots of land in extent of 04 acres and 43 perches located on Sri Jayawardanapura Mawatha, Rajagiriya on 09 October 2013. However, 02 land plots in extent of 02 acres 03 roods and 01 perch, so acquired, had again been alienated to the initial owners in the years 2015 and 2016 whereas compensation totalling Rs. 213.22 million had been paid as at 31 December 2021 in respect of the rest of the land in extent of 01 rood and 02 perches. However, that plot of land had not been used for the intended purpose or any other development activity even by June 2023.	Request had been made on 16 September 2022 that a Grant be provided for this land in terms of Section 6(1) of the Land Ordinance. The Divisional Secretariat, Sri Jayawardanapura Kotte is taking action in that connection. Once the Grant is received, the Urban Development Authority will take action to dispose the land to a third party for development purposes.	The land acquired should be utilized in a productive manner.
(d)	The households of Ovel View housing complex comprising 608 housing units the constructions of which had been	A number of 144 deeds of transfer had been executed under this project by June 2023.	Action should be taken to transfer the legal rights of

	completed in September of the year under review and the Lake Crest housing complex in Angoda comprising 500 housing units the constructions of which had been completed in the year 2018, had paid sums of Rs. 4,756.32 million and Rs. 816.3 million respectively to the Urban Development Authority, but legal rights to the houses had not been transferred to them even up to July 2023.	Following the issues relating to paying the stamp duties to the provincial Department of inland revenue by the rest of the beneficiaries of houses based on the current market value of the properties, a delay has occurred in executing the deeds of transfer.	houses to the households by resolving the issues.
(e)	The Peliyagoda Market Complex constructed in the year 2016 using Treasury grants amounting to Rs. 6.9 billion used to shift the Pettah market complex (Manning Market), had been completed by the Authority by September of the year under review. However, even by 15 September 2022, a number of 417 out of the 1,395 stalls in the market complex had not been provided for the traders.	The 167 traders of the Manning Market mentioned in this audit Paragraph as not being provided with alternative stalls as at 30 November 2022, have been provided with alternative stalls.	The stalls should be provided for the eligible traders thereby maximizing the revenue received by the Authority.
(f)	The contract for construction of the housing scheme consisting 500 houses on WeeraMawatha, Pannipitiya, had been awarded on 15 June 2017 to a contractor selected by a procurement committee appointed by the Cabinet. Although the project should have been completed by 31 December 2019, an extension had been given until 29 September 2022 under approval of the Chairman of the Authority as the project could not be completed by the said date. Of the 500 housing units, 101 houses had been provided for the Ministry of Defense and the Navy whereas 202 houses had been sold through presale process, and the other 197 houses remained under construction without being presold. The Authority had received a sum of Rs. 3,188.63 million comprising a sum of Rs. 1,011.79 million paid by the Ministry of Defense and Navy and a sum of Rs. 2,176.84 million relating to the houses sold under	The project comprising Towers A, B, C, and D each facilitating 101 housing units with Tower E comprising 96 housing units, is being implemented. Construction of Towers B and D has been fully completed whereas it is scheduled to complete the construction of Tower C and deliver within 02 weeks. It is expected to complete the Towers A and E and deliver to the beneficiaries before the end of this year. following a Cabinet Decision, 101 housing units of Tower B have been provided for members of Parliament. Ninety five of the 101 housing units in Tower D are being occupied after making the payments. Forty three of the 96 housing units in Tower E have been reserved by the clients. It could not be	The project should be completed, and the houses should be provided for the beneficiaries without delay. Action should be taken to sell the rest of the houses thereby maximizing the revenue.

	Audit Issue	Management Comment	Recommendation
	presale process. Nevertheless, the houses had not been handed over to the beneficiaries after being completed even by July 2023.	completed due to downturn in the construction industry following the Covid-19 pandemic and economic crisis that occurred in the country thereafter.	

3.4 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	There existed 7,655 premises as of 31 December of the year under review given on lease for commercial affairs on monthly rent, and 3,053 lessees therefrom had become inactive representing 47 per cent. By the end of the year under review, the outstanding lease rent receivable from those lessees, totaled Rs. 255.79 million. Furthermore, the balance of outstanding lease rents receivable from 4,602 active lessees, amounted to Rs. 718.25 million by the end of the year under review. Accordingly, it was hence observed that a Value Added Tax totaling Rs. 90.66 million recoverable to the Government as at 31 December 2020, had also been lost. Failure in drawing attention adequately to recover the lease rents in accordance with the agreements, had mainly attributed thereto.	As at 31 December 2020, there existed a total of 7655 Rent debtors comprising 4602 active debtors and 3053 inactive debtors. Sums of Rs. 255.79 million and Rs. 718.25 million remained recoverable from inactive and active debtors respectively as at 31 December 2020. The land development and management division, and the property management division of the Authority evaluates on the monthly income and potential for payment of the clients, thereby making the allocations, and also obtain security deposits as well.	A methodology should be prepared to promptly recover the dues from inactive lessees.
(b)	The construction of flats for families settled at the land pertaining to Slave Island Redevelopment Project should have been completed by the year 2015. However, following the delay of the contractor responsible for constructions, , the Authority made a payment of Rs. 66.69 million comprising an additional consultancy fee of Rs. 5.49 million paid to the consultancy firm for construction works and monthly rentals totaling Rs. 61.20 million paid until flats were provided for the said families. However, that sum was not reimbursed	Having sold 58 of the 62 housing units constructed additionally by the project, the Authority had earned a revenue of Rs. 612.80 million, thus earning a profit of Rs. 141 million through the sale of those additional housing units. As such, the payments made to the State Engineering Corporation and the rentals paid on temporary settlement could be set off against the sale of additional houses.	Action should be taken to expeditiously recover the sum receivable from the Company.

	from the land developer even by July 2023.		
(c)	Board of Directors of the Authority had decided that warehouse buildings costing Rs. 376.44 million owned by the Peliyagoda Warehouse Company Ltd be taken over by the Authority with effect from 31 August 2017. However, no action had been taken by the Authority even up to the date of this report to acquire those lands and report them as assets of the Authority. Nevertheless, a lease rent income of Rs. 45.85 million had been earned by the Authority by giving this warehouse complex on lease during the period from August 2017 to 31 December 2020.	This warehouse complex is further mentioned in the books of accounts maintained by the PWCC Company, and could not be brought to the accounts of the Authority until the liquidation accounts are presented by the liquidator. However, as management of the warehouse complex had been assigned to the Urban Development Authority with effect from 31 August 2017 subject to the liquidator presenting the accounts of liquidation, the said lease rents had been earned.	The warehouse complex should be taken over by the Authority and utilized in a productive manner.

3.5 Transactions of Contentious Nature

	Audit Issue	Management Comment	Recommendation
(a)	The Cabinet Memorandum No. MUD/H/2020/CP/37 dated 12 October 2020 had been approved by the Cabinet on 27 October 2020 in order for the Authority to take over Government and private lands for urban development projects proposed to be implemented in main townships in the country. Approval of the Cabinet had been received that, out of the 45 lands annexed to the said Memorandum, 03 lands with buildings in extent of 1.8274 hectares where Otters Aquatic Club and 80 Club had been maintained, be acquired by the Authority and declared open to the public after being developed. Nevertheless, the said clubs had not been declared open to the public by the Authority even up to June 2023. Furthermore, a sum of Rs. 453.88 million had been spent by the Authority in the year	Action has been taken to declare open the 80 Club to the general public on 23 June 2023 thus maintaining operational and management affairs. The Authority is taking action to call for development proposals for the land where the 80 Club is established. Tenders had been called through newspaper advertisements published on 20 June 2021 in order to implement a mixed development project on a part of the land where the Otters Aquatic Club had been established. However, that attempt was not successful.	The Clubs should be declared open to the general public in accordance with the Cabinet Decision.

	2021 on renovation works of the 80 Club.		
(b)	According to the schedule relating to the payment of compensation made available to the Audit, owners of the lands in extent of 66 acres 02 roods and 25.5 perches acquired by the Authority, could not be specifically identified. Sums of Rs. 2,040.72 million and Rs. 493.83 million had been allocated in that connection as compensation and interest respectively. Those balances included balances continued to exist since 1984, and due to failure in identifying the owners, an additional cost had been incurred by the Authority on interest.	Until the inquiries on compensation for lands acquired are completed by the Divisional Secretariat and the beneficiaries for compensation are identified, interest should be paid with effect from the date of acquisition in accordance with Section 38 of the Act.	Owners of lands should be identified by coordinating with the relevant institutions. As such, the interest on compensation to be paid by the Authority should be minimized.

3.6 Idle or Underutilized Property, Plant and Equipment

	Audit Issue	Management Comment	Recommendation
(a)	With a view to disposing of waste, action had been taken to take over a land in extent of 6.451 acres in Rajagiriya, Kolonnawa published as an urban development zone. A certificate of vesting had been issued to the Authority on 23 April 2008 in terms of Section 44 of the Land Acquisition (Amendment) Act, No. 28 of 1964. Nevertheless, legal rights to the land had not been acquired by the Authority even up to the date of audit 0n 28 November 2022 in terms of Section 6(1) of the Crown Land Ordinance. As this land had been eliminated from the assets of the Authority in the assessment of lands done on 31 December 2012, the expenditure of Rs. 4.46 million incurred on the development of lands had been written off against the profit of the year 2012. As for the disposal of waste, a feasibility study	The value of expenditure incurred for acquisition of lands that had been set off against the profit of the year 2012, was not included specifically in the final accounts of the year 2021 as being a marshy land. However, when the land is developed, adjustments will be made in the final accounts based on the assessment value relating to that year. Once the Grant is obtained for the said marshy land in terms of Section 6(1), it is expected to conduct a feasibility study for implementing a suitable development project, and use the land for an authorized development project in accordance with the zonal development plan for Sri Jayawardanapura Kotte after obtaining all the necessary approvals including the environmental certificate.	Legal rights to the land should be taken over without delay. This land should be used for an economically productive activity.

	had not been conducted, nor had an environmental certificate been obtained from the Central Environmental Authority in order to use the land located near petroleum storage complex in Kolonnawa requiring social security. However, it was observed that this land remained idle thus far without being used for any purpose		
(b)	The Authority had commenced in the year 2017 the construction of 05 storied building complex for administrative and commercial purposes in Mahara at the contract value of Rs. 269.12 million as a stage of the "*Sukhitha Purawara*" township development project implemented by the then Ministry of Megapolis and Western Development , and the construction had been completed in the year 2019. Nevertheless, the building had not been formally handed over to the relevant parties. Furthermore, 04 offices had been established on the ground floor and the first floor though, the rest of the building had not been used for any commercial activity or office space as planned and remained idle even up to 31 October 2022.	Following instructions received that the entire building be provided for the Pradeshiya Sabha of Mahara, the matter was brought before Board of Management on 19 January 2023, and the approval was received in that connection. Accordingly, action is being taken to enter into an agreement between the two parties.	The handover should be done in a manner that the Authority not sustaining a loss.
(c)	The Authority had taken action to acquire lands in extent of 16 acres 03 roods and 0.57 perches where houses, cultivations, and businesses had been maintained, in order to construct the stadium of Aloysius College, international cricket stadium of Galle and a sports complex under the Galle City Development Plan in the year 2006. The Treasury had been requested for a sum of Rs. 400 million in order to pay compensation for those lands,	It is expected to obtain approval of the Board of Management of the Urban Development Authority so that the entire land in extent of 16 acres 03 roods and 0.57 perches in Dadalla Galle would be acquired through the Divisional Secretary and alienate to the Department of Sports Development thus informing the Ministry of Lands through the Line Ministry in due course.	Necessary action should be taken to ensure the productive and economic utilization of the land.

	Audit Issue	Management Comment	Recommendation
	and a sum of Rs. 281.57 million had been paid as compensation and interest as at 13 July 2021. Nevertheless, a considerable area of the land, so acquired, remained idle even by 30 September 2023.		
(d)	The land of 02 acres 02 roods and 21.4 perches facing D. R. Wijewardana Mawatha, Colombo Fort belonging to the Authority, remained idle without being used for any development purpose even by June 2023.	A Committee comprising 05 members had been appointed at the meeting of the Board of Management held on 17 November 2022; and, further action will be taken based on the recommendations of that Committee.	This land should be used for a productive economic activity thereby increasing the revenue of Authority.

3.7 Delays in Projects or Capital Works

	Audit Issue	Management Comment	Recommendation
(a)	A certain project with the contract value of Rs. 20 million under the project for development of the western bank of Beira lake comprising 05 stages at an estimated value of Rs. 400 million scheduled to be commenced in January 2018 and completed by 31 December 2019, had been taken over by the Authority without completing its works.	At present, a physical progress of 68 per cent has been achieved. Following difficulty in obtaining provision further due to financial issues, the contract, after being completed in mutual agreement, has been taken over by the Urban Development Authority.	Constructions should be completed and taken over by the Authority in a manner that the Authority shall not incur unnecessary costs in the future.
(b)	In order to construct an urban park under the Meethotamulla Regeneration Project, a private institution had been awarded with the contract valued at Rs. 269.5 million on 9 June 2020 for applying a blanket layer to stabilize the garbage dump that had collapsed in the year 2017 and install a greenhouse gas emission unit. The Authority had spent a sum of Rs. 432.95 million on this project by 25 October 2023, but a park had not been constructed as planned, and it was observed in the physical inspection carried out on 23 December 2021 that the stabilized	It has been verified by the National Buildings Research Organization (NBRO) that the garbage dump had been stabilized as per specifications of the consultants without being detrimental to the public. Thirty per cent of the waste water disposal system and 25 per cent of the gas emission system had been completed. The Authority has already taken action to call for investment proposals in order to select an investor from the private sector for completing the rest of the works of this project.	Land acquisition process should be expedited, and action should be taken to make use of the land on productive, economic and environmental purposes.

	garbage dump had been encroached by wilderness and left unused. Furthermore, the works of the systems to be used to prevent the waste water from flowing into canals and mixing with ground water and collecting gas through the gas emission center, had not been completed. It was also observed that failure in completing the land acquisition process had become a problem for completing the remaining works of the project through a public-private partnership as expected by the Authority.		
(c)	It was an essential responsibility of the Authority to construct vehicle parks for vehicles of the people visiting Colombo and suburban areas for miscellaneous purposes whilst improving such facilities from time to time thus assisting to control traffic in Colombo and suburban areas. However, it was observed that the Authority had not drawn their attention adequately. Five of the 15 projects for construction of vehicle parks in the capital, had not been implemented as per agreements.	A project report required for obtaining Treasury grants had been prepared and forwarded to the Department of National Planning. Approval has not yet been received for funds.	The non-implemented projects should be implemented without delay as per agreements in order to control the traffic congestion.

3.8 Utilization of Resources of other Organizations

Audit Issue	Management Comment	Recommendation
A number of 108 officers had been recruited through a subsidiary company of the Authority to the post of assistant designer, a post not included in the approved cadre of the Authority,, and assigned to the duties of the Authority. A sum totalling Rs. 99.21 million had been paid to those officers as salaries and allowances by the end of the year 2021.	Under approval of the Department of Management Services, action has been taken to include those officers recruited through the subsidiary company based on requirements of the Authority, in the cadre plan of the Authority and then into the permanent cadre of the Authority.	Employees required for the Authority should not be recruited through the subsidiary companies.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
The Authority should have submitted the financial statements for the year under review to the Audit by 28 February 2021, but the financial statements had been presented after a delay of 02 years on 10 January 2023.	Not commented.	The financial statements should be presented within the specified duration in order to exercise the responsibility for accountability.

4.2 Productivity of the Management Information System

	Audit Issue	Management Comment	Recommendation
a)	The Financial Information Management System (FMIS) being used by the Authority at present had specifically been developed by a private supplier solely based on requirements of the Authority, and the system has been in use since 2017. This information system can not be interlinked with other software applications of the Authority, and is a stand alone software. Furthermore, the technology used to develop this system is outdated. Furthermore, the supplier of the system has a decisive impact on the operations of the property management division, which is directly related to the authority's revenue generation, as well as the financial division, which determines the overall financial position and financial performance of the authority.	It is not agreed with the statement that "the supplier of the system has a decisive impact on the operations of the property management division, , as well as the financial division, which determines the overall financial position and financial performance of the authority". Due to inefficiencies in the system, the system should be further developed or a new one should be installed to rectify such inefficiencies. As such, action is being taken to install a new system without delay following a decision taken by the management.	A comprehensive financial management system should be installed by eliminating inefficiencies identified during the installation and functioning of existing system.
b)	A total of Rs. 10.46 million, comprising a sum of Rs. 8.30 million for installation of the existing accounting software of the Authority and a sum of Rs. 2.16 million on maintenance thereof for 02 years under 02 service agreements until 22 July 2022, had	Except for the VAT schedules, the other registers and statements can not be fully retrieved through the existing accounting system. The necessary modifications should be done through the supplier.	Action should be taken to install a comprehensive financial management system by eliminating the inefficiencies identified during the functioning of existing system.

been paid. Nevertheless, it was observed that the reports such as, the statement of comprehensive income and statement of financial position as at 31 December 2020, age analyses on debtors/ creditors, reconciliation reports on debtors/creditors, computation of annual depreciation, register of investment properties, a register of fixed deposits for a given time period, schedule for dishonored cheques, and bank reconciliation statement, could not be retrieved through the accounting system.