

## **Urban Development Authority and its Subsidiaries – 2017**

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The audit of consolidated financial statements of the Urban Development Authority and its Subsidiaries for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 10 of the Urban Development Authority Act, No. 41 of 1978.

### **1.2 Management’s Responsibility for the Financial Statements**

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

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1800).

### **1.4 Basis for Disclaimer of Opinion**

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

## **2. Financial Statements**

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### **2.1 Disclaimer of Opinion – Group**

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

#### **Disclaimer of Opinion – Authority**

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

## 2.2 **Comments on Financial Statements – Group**

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The following observations are made.

- (a) The consolidated financial statements of the Authority had been prepared based on audited financial statements of the subsidiary companies of the Urban Investments and Development Company, Waters Edge Ltd, Lanka Rest House (Private) Company for the year 2017 and Peliyagoda Warehouse Complex Ltd had not furnished the financial statements since the year 2014. Entire ownership of the above 04 companies had been vested in the Authority. The investment value of the Peliyagoda Warehouse Complex Ltd up to end of June 2017 amounted to Rs.500 million and that investment value had been reduced by same amount. That Company had been acquired by the Authority in August 2017. However, necessary adjustments for the assets and liabilities and other transactions had not been made.
- (b) The Authority has requested from the Waters Edge Company to issue shares of the Company for the value of the assets amounting to Rs.642.5 million that had been vested in the Authority on a Court order, and fund given for repairing activities amounting to Rs.200 million. However, the shares had not been issued up to 31 December 2017. Although it was disclosed in the statements of financial position of the Waters Edge Ltd that there is a pending allotment of shares, amounting to Rs.842.5 million, according to the financial statements of the Authority that corresponding value amounted to Rs.436 million. Compared to the preceding year, the value of the investment had decreased by Rs.406.5 million and reason for the decrease had not been disclosed in the financial statements. Further, the above Company and the Urban Development Authority had not entered into a formal agreement relating to the issue of shares.
- (c) The main source of income of the Urban Investment Development Company, the rent income, had been directly adjusted and shown in the Consolidated financial statements. No disclosure had been made in this regard in the financial statements.

## 2.3 **Comments on Financial Statements – Authority**

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### 2.3.1 **Sri Lanka Accounting Standards**

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The following non-compliance were observed.

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

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Even though the loans amounting to Rs.22.25 million had been provided to implement Urban Development Sector Programmes, adequate disclosure thereon had not been made in the financial statements.

#### (b) **Sri Lanka Financial Reporting Standard 10**

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In preparing the consolidated financial statements of the Authority, 3 Private Companies had been consolidated with the parent company. However, the disclosure on the net assets amounting to Rs.2.5 billion related to the above consolidation had

not been made in the financial statements and the related schedules too had not been furnished to audit.

**(c) Sri Lanka Accounting Standard 17**  
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Adequate disclosure had not been made in the financial statements with regard to the deferred lease rent amounting to Rs.36,551 indicated in the statement of financial position.

**(d) Sri Lanka Accounting Standard 24**  
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According to the audited financial statements of the Waters Edge Ltd for the year under review, it had been stated that a sum of Rs.4,135,486 to be receivable from the Authority. However, this related party transaction had not been disclosed in the financial statements of the Authority and the above balance had not been shown in the financial statements of the Authority as a payable amount.

**(e) Sri Lanka Accounting Standard 28**  
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Even though, the investment in three Associate Companies amounting to Rs.45.8 million had been shown in the financial statements, adequate disclosure in respect of non-recognition of benefits/ not accumulating income for the investments had not been made in the financial statements.

**(f) Sri Lanka Accounting Standard 40**  
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(i) According to the requirements of the standard, the value of investment properties amounting to Rs.91,000 million should be separately shown in the statements of financial position. However, those properties had been shown under the non-current assets and the administration building of the Authority located at 6<sup>th</sup> and 7<sup>th</sup> floors of the Sethsiripaya building and the other administration buildings of the Authority had been shown in the financial statements under the investment property at a value of Rs.62.5 million instead of being shown them under the Property Plant and Equipment. Further, the construction works which were in progress even up to the end of the year under review and valued at Rs.161.4 million had been shown under the investment properties instead of being shown under the work-in-progress. Contrary to the criteria for identification of investment properties, the land and properties valued at Rs.12,173 million and a sum of Rs.11,420 million incurred for Urban Developments had been shown under the investment properties.

(ii) A land situated at Talawathugoda Wickramasinghapura, extent of 54 perches and valued at Rs.600 million, had been acquired under section 44 of the Land Acquisition Act dated 28 August 1950. Subsequently, that land had been sold to several occupants for the value of Rs.616,000 as at 31 December 2012. However, when restating the statement of financial position in the year 2016, a sum of Rs.555,416,400 had been respectively debited and credited to retained profit and investment property accounts, by stating over valuation of properties.

### **2.3.2 Accounting Policies**

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

### **2.3.3 Accounting Deficiencies**

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The following observations are made.

- (a) According to the financial statements, value of the stock of houses of the Authority as at 01 January 2017 amounted to Rs.15,277 million and the value of transferred housing units in the year 2017 to the recipients amounting to Rs.4,206 million had not been correctly adjusted as at 31 December 2017. As a result, the trade stock as at 31 December 2017 had been under stated in the financial statements by Rs.157 million.
- (b) The National Security Levy and Goods and Services Tax amounting to Rs.36 million, which are not currently being charged, had been shown as sate tax debtors in the financial statements over a number of years.
- (c) According to the Computer data system of the assets recovering and management division of the Authority, the rent income debtors' balance as at 31 December 2017 amounted to Rs.456,656,981. It was confirmed that out of that debtor balances, a sum of Rs.103,089,890 (out of the 22.5 per cent of total rent debtors) represented agreements cancelled debtors. Despite, the payment of rent in default for several months, the income was automatically credited to the rent income account and debited to the debtors accounts. Thus, accuracy of the rent income shown in the financial statements could not be ascertained in audit.
- (d) The receivable to the Authority as at end of the year under review amounting to Rs.221.3 million from the Grater Colombo Urban Development Project relating to 90 housing units given to 90 displaced families under 2 housing projects had not been brought to the financial statements.
- (e) According to sample test check carried out as at 31 December 2017, the minus balances shown in the rent account and the utility charges account of the Authority amounted to Rs.13,865,183 and Rs.4,907,233 respectively. Hence, those amounts had been understated in the financial statements.

### **2.3.4 Unexplained Differences**

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A difference of Rs.4,425 million was observed between the 14 items shown in the financial statement and the corresponding detailed schedules thereon. Further, according to the financial statements of the Authority, the receivable amount from 11 state institutions amounted to Rs.3,370 million and whereas according to the financial statements of those institutions, aggregated payable amount to the Authority amounted to Rs.3,610 million. Thus, a difference of Rs.240 million was observed between those balances. Furthermore, action had not been taken to recover those balances for over several years.

### 2.3.5 Lack of evidence for Audit

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

<b>Accounting subject</b>	<b>Value</b>	<b>Evidence not made available</b>
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	Rs.	
(a) Lands	90,883,000	Land Register
(b) Buildings	1,673,241,283	Detailed Schedule
(c) Work-in-progress	28,421,916,742	Supporting documents
(d) Depreciation of fixed assets	832,983,489	Computation details of depreciation
(e) Amortisation of leasehold properties	36,550,669,384	Detailed schedule for leasehold properties
(f) Payables to the contractors	1,808,062,489	Schedule for contract creditors
(g) Miscellaneous income	349,130,232	Detailed Schedule
(h) Debtor balances	171,840,608	Balance Confirmations

### 2.4 Accounts Receivable and Payable

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The following observations are made.

- (a) The advances amounting to Rs.4.2 billion which had been given to the contractors by the Authority for various projects remained unsettled as at 31 December of the year under review. An age analysis had not been furnished for audit relating to those advances.
- (b) The receivables from the Urban Development Sector Project (UDSP) amounting to Rs.3,485,138 had not been recovered for over 5 years and action had not been taken by the Authority either to recover the balances or to make the settlement after being analysis the balances.
- (c) Out of Rs.5,476 million received from the customers for various capital works, a sum of Rs.1,035 million had not been settled for over 5 years. Nevertheless, action had not been taken to settle that amount, after being identified the customers or to written back non-liable balances to the income.
- (d) Out of the debtors shown in the financial statements of the Authority, 16 debtor balances aggregating to Rs.171,840,608 had been carried forward since the year 2013 without being recovered.
- (e) The debtors' balance shown in the financial statements of the Urban Development Authority as at 31 December 2017 for renting of shops, houses and office spaces under the 99 project which had been carried out operational and maintenance activities, amounted to Rs.463,474,814. A minus balance amounting to Rs.7,579,703 had been offset to the above balance and an age analysis had not been furnished for those debtor balances.

- (f) Even though, a sum of Rs.7,255,110 had been shown under the current liabilities as maintenance deposits, the unsettled balance from the above balance for over 5 years amounted to Rs.7,063,500.
- (g) The unsettled bills for the contractors for a period ranging from 03 to 05 years amounted to Rs.30,846,831.

## 2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

<b>Reference to Laws, Rules and Regulations etc.</b>	<b>Non-compliance</b>
<ul style="list-style-type: none"> <li>(a) Companies Act, No.07 of 2007               <ul style="list-style-type: none"> <li>(i) Section 383</li> <li>(ii) Section 330</li> </ul> </li> <li>(b) Employees' Provident Fund Act, No.15 of 1958 and Employees' Trust Fund Act, No.45 of 1980</li> </ul>	<p>According to the winding-up procedure, a person who has within two years immediately preceding the commencement of the winding-up, been a Director of the Company or of a related Company should not be appointed or act as a Liquidator of a Company. However, a Director of a Subsidiary Company had been appointed as the Liquidator of Peliyagoda Warehouse Complex Ltd, the winding up Company.</p> <p>In the event the winding-up continuing for more than one year, the Liquidator should summon a general meeting of the Company at end of the first year from the date commencement of the succeeding year or at first convenient date within the 3 months from the end of the year or such longer period as the Register will allow. However, a general meeting of the Company had not been held accordingly.</p> <p>In the computation of contribution to Employees' Provident Fund and Employees' Trust Fund, the cost of living allowance should be taken into consideration and it had not been so done. As such, the arrears payable in respect of contributions and surcharges</p>

for the period from the years 2006 to 2012 amounted to Rs.31,423,701.

- (c) Common Amenities (amendment) Act, No.39 of 2003

Even though, a certificate should be obtained from the Condominium Management Authority for housing complexes of the housing projects, such a certificate had not been obtained for the housing schemes belonging to Urban Regenerative Project.

**(d) Public Administration Circulars and Management Services Circulars**

- (i) Management Services Circular No.39 dated 26 May 2009.

Without having the recommendation of the salaries and cadre Commission and the approval of the Department of Management Services, a monthly professional allowance of Rs.15,000 had been paid to Engineers, Architects, Lawyers, Accountants, Town Planners and Quantity Surveyors etc., of the Urban Development Authority with effect from 01 July 2014. Accordingly, a sum of Rs.30,183,000 had been paid for 219 officers during the year under review and a sum of Rs.27,930,000 had also been paid in the preceding year for that purpose.

- (ii) Ministry of Public Administration and Management Circular No.05/2016 dated 09 March 2016.

Eight sectional Head posts had been created in between the post of the Director and the Deputy Director, posts which are not in the prepared cadre of the Authority and furnished for the approval. Eight officers had been recruited for the above 8 posts in the year under review and salaries had been paid adding additional two increments. As well, transport allowances of Rs.3,400,000 and fuel allowance equivalent to 120 fuel Letters had also continuously been paid to them. Further, violating the promotion procedure, those new posts had been granted when giving promotion to them.

(iii) Public Administration Circular No.14/2008 dated 26 June 2008 and Public Enterprise Circular No.PED/1/2015 dated 25 May 2015

Drivers had been provided for 23 officers who had drawn allowances by using private motor vehicles, and a sum of Rs.30,186,085 had been incurred by the authority in the preceding year as Drivers' salaries and overtime allowances. As well, the Drivers had been allocated to 36 officers in the year under review. The payment details for the officers had not been furnished to audit.

(iv) Management Services Circular No.30 dated 22 September 2006 and Public Administration Circular No.06/2006 dated 25 April 2006

A performance based promotion scheme had not been introduced for the Authority and after placing the posts in a new salary structure, approval of the National Salaries and Cadre Commission had not been obtained to implement it. Nevertheless, the Authority had taken actions to grant promotions subject to the covering approval utilizing a proposed cadre composition. According to those Circulars, although it had been instructed to inform the officers about marks allocation procedure when giving the promotions, it had not been so done.

**(e) State Finance Circulars and Department of State Enterprise Circulars**

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

The Public Corporations and Boards should keep their bank accounts only in the state banks. However, contrary to the Circular instructions, a bank account had been opened in a private bank, National Development Bank, and action had been taken to deposit the instalments receive from sales of houses in that bank account.

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

When it is personally satisfied that there are no suitable person in the institute to accomplish the urgent service requirements, the service of the external persons could be obtained only

for a 2 months period based on the personal approval of the Secretary to the Line Ministry. However, contrary to the circular instructions, a sum of Rs.13,013,500 had been paid for the year 2017 by recruiting 12 consultants and a sum of Rs.23,631,491 had been paid since the date of the recruitment.

- Before obtaining the service from an outside party, the terms of references of the service should be clearly identified by the service obtaining institute. However, without being identified the expected service of the consultants, the Urban Development Authority had recruited the consultants on contract basis and contract service period had been extended in every year.
- The payment of remunerations for retired officers should not be exceeded by 60 days and rendering of services should be limited to short term urgent services. The maximum payment to be made only Rs.60,000. However, contrary to the circular instructions, 08 retired officers had been recruited and the particulars relating to the payments made to those officers during the year under review had not been furnished to audit. The details relating to the works done had not been maintained.

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

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- Section 4.2.6

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

- Section 8.2.3
 

The approval of the Cabinet of Ministers had not been obtained for the establishment of the Urban Investment and Real State (Private) Company, the Urban Investment and Hotel Development Company, Orchard Urban Housing Development Company and the Water Edge Hotel Development Company on 21 November 2014.
  
- Section 9.2(d)
 

The approval of the Department of Public Enterprises had not been obtained for the composition of the cadre of the Authority.
  
- Section 9.14
 

The Authority should prepare a procedure relating to the Human Resources Management and get it approved and otherwise, provisions in the Establishment Code relating to Human Resource Management should be adopted. Nevertheless, action had not been taken accordingly.
  
- (iv) Circular of the Secretary to the Ministry of Finance and Planning No.116 dated 24 January 1997 and Paragraph 9.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003
 

Even though, the officers of the Public Enterprises should not be released to the Ministry or other Public Institutions, 27 employees of the Authority had been released to other Public Institution contrary to that direction. Out of those employees, the payments made to 09 employees amounting to Rs.1,198,591 had not been got reimbursed. Further, 08 officers had been released to the Urban Investment an Development Company on secondment basis and 79 offices of that Company had been assigned to the Authority. The details on the payment of remunerations to those officers had not been furnished to audit.
  
- (v) Public Enterprise Circular No.01/2003 dated 3 January 2004
 

Four retired officers, over 60 years of age, had been recruited by the Authority and assigned them in various activities. Without obtaining the consent of the General Treasury,

salaries and allowances ranging from Rs.42,852 to Rs.100,000 had been paid per month. In addition, fuel and Drivers had also been provided.

- (f) Schedule V and Paragraph 7 Extraordinary Gazette No.1597/8 dated 17 April 2009 of Democratic Socialist Republic of Sri Lanka.

According to a survey conducted by the Authority in the Greater Colombo Urban Region several years ago, it had been identified 1868 unauthorized constructions and changes. However, according to the requirement of the Gazette, actions had not been taken either to regularize them by charging a fee for covering approval and a fee for changing the utilization, if they can be regularized or to remove the unauthorized constructions.

- (g) Public Administration Circular No.13/2001 dated 10 July 2001

When there is a possibility to appoint a qualified officer as a successor of a retirement officer, an officer should not be appointed on contract basis in order to fulfil the entire duty or a part of the duty executed by that retired officer. As well, in order to fill the vacancy of the retiring officers, suitable persons should be trained as early as possible and conducting of such training programmes are responsibility of the Secretaries to the Ministries. However, without being fulfilled that responsibility, the officers had been continuously recruited on contract basis by mentioning the difficulty to find out suitable persons, and recruitments had been made by the Authority on contract basis for the posts of Consultant, Translators, Confidential Secretary, Deputy Director, Technical Officer, Labour Director etc., without considering instructions given for not to make request for the recruitment on contract basis.

- (h) The Management Services Circular No.1/2017 dated 11 January 2017

An evaluation on cadre of the Authority for the year 2017 had not been carried out by the Authority.

- (i) The president Secretariat Circular No.SP/RD/02/10 dated 03 February 2010

Paragraph 3.4

According to the related Acts and regulations, in disposing of state lands, their sole ownership are not vested with the respective institutions. Hence, it is emphasised that those vested lands could not be transferred to third parties and the should be used for the desired purposes. Nevertheless, the lands acquired by the Urban Development Authority for the Urban Development activities had been given to private institutions on long term lease basis, without being used for lands acquired purposes. Further, some of the valuable lands had been released for the construction of luxury apartments.

### **3. Financial Review**

#### **3.1 Financial Results**

According to the financial statements presented, the profits before tax of the Group and the Authority amounted to Rs.837 million and Rs.227 million respectively for the year ended 31 December of the year under review. As compared with the corresponding profit before tax of the Group and the Authority for the preceding year amounted to Rs.825 million and Rs.133 million respectively. Thus, indicating a improvement of Rs.12 million and Rs.94 million in the financial results of the Group and the Authority respectively as compared with the corresponding financial result of the preceding year. Increase of other income of the Group by Rs.864 million and increase of the income of the Authority and the Group by Rs.559 million and decrease of the financial expenses of the Group by Rs.583 million and decrease of that expenditure of the Authority by Rs.615 million had mainly attributed to improvement in the financial results.

In analysing the financial results for the year under review and preceding four years, except the loss incurred for the year 2015, profits were earned for other years. However, when readjusting the employees' remunerations depreciation on non-current assets, National Building Tax and Income Tax to the financial results, the contribution of the Authority amounted to Rs.2,185 million in the year 2013 and this was decreased to Rs.2,069 million up to the year under review.

## **4. Operating Review**

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### **4.1 Performance**

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

- (a) According to the progress report of the year 2017, 14 projects scheduled to be implemented in the year 2017 with an estimated cost Rs.396 million had not been implemented.
- (b) The physical progress of 34 projects which were scheduled to be completed as at 31 December 2017 at a cost of Rs.1,506 million were below 50 per cent and the cost of 10 programme of which remained the progress below 10 per cent, amounted to Rs.240 million.
- (c) Even though, 243 urban development zones had been identified in accordance with Sections 3 of the Urban Development Act, No.41 of 1978 by the end of the year under review, development plans had been prepared only for 42 Zones.

### **4.2 Management Activities**

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The following observations are made.

- (a) Two plots of land more than 3 acres in extent situated in Maradana and Rajagiriya had been transferred on long term lease basis to 2 private institutes in the year 2014, the long term lease rents amounting to Rs.1,998.7 million had not been recovered for those lands up to the date of this report.
- (b) The shopping complexes which have been implemented by the Authority, such as Colombo Super shopping Complex, Colombo Gold Centre, Floating Market Complex and pavement park in Borella etc., have been unsuccessful due to the reasons of the weaknesses in planning and inadequate customers etc. and most of shops had been closed down up to end of the year under review. The Authority had not taken progressive actions to reactivate those projects and to give effective propaganda on those shopping complexes.
- (c) It had been agreed to grant the land located at Malabe, 296 perches in extent taken over by the Authority in the settlement of land, 158 perches in extent acquired in the year 2009 for the construction of a sports complex at Navinna, to that Company owned the above land. It had been informed to audit in preceding years that a sum of Rs.55 million had been paid to the owner of the land up to 31 December 2016 and that had been set off without obtaining a valuation from the Chief Valuer. However, no payment had been so made and it was a contentious issue in audit.
- (d) The receivables rent income from 16 housing schemes of the Authority given under the Urban Regenerative Project had not been recovered. The receivable amount from

only one scheme as at 31 December 2017 amounted to Rs.166,839,918. The details relating to receivables from other schemes had not been furnished to audit.

- (e) The Urban Development and Real State (Pvt) Ltd, the Urban Development Investment and Hotel Development Company, the Orchard Urban Housing Development Company and Water Edge Hotel Development Company had been incorporated as subsidiary companies of the Urban Development Authority on 21 November 2014 and following observations are made in this connection.
  - (i) The operation activities of those companies had not been commenced even up to end of the year under review.
  - (ii) Those Companies do not commence their business within a year from the date of their incorporation. Hence, in terms of Section 270(b) of the Companies Act, No.07 of 2007, said companies may be winding-up by the Court. Nevertheless, the Director Board had not made a decision in this regard.
- (f) Without being continued the proposed Enterprise Resource Planning process of the Authority, an agreement had been signed with a private institute for the instalment and maintenance of a Computer Software for Rs.8.3 million in the year 2016. Even though, that Accounting software package should be installed within 120 days from the date of the agreement, the expected formalizing procedure of accounting system and generation of accounting information process had not been achieved even after lapsed of 2 ½ years up to end of the year under review.
- (g) According to the financial estimates and directions and proposals given by the Cabinet of Ministers with regard to Urban Regenerative Project, the lands took over to the Project should be invested in the investment projects in order to raise the funds. However, none of the land acquired by the Authority had been invested in the income generated projects and action had not been taken to prepare the business plans.
- (h) The customers of the Authority those who were not paying monthly rent and default instalments were as high as 67 per cent. Accordingly, it was observed that the rent income recovering procedure was weak. Further, an internal control system in that regard had not been introduced by the Authority and the Authority had failed to take action to cancelled the rent agreements of the customers who did not comply with those agreements or to reinvest the properties in an alternative investments.
- (i) It was observed that the main source of income of the Authority such as rent income, utility charges, surcharges and lease rent had not been continuously collected. Thus, even though he related documents that required to examine the above matter, those documents had not been furnished to audit.

### **4.3 Transactions of Contentious Nature**

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The following observations are made.

- (a) A land belonged to the Authority, in extent of 2 Acres, 2 Roods and 21.4 perches, located adjacent to D.R.Wijewardana Mawatha Colombo Fort, had been rented out to a private company on 99 years long term lease basis at a rate below the estimated value of the Government Valuer by Rs.330 million and as a result the Authority had incurred a loss of Rs.330 million from the disposing of this land. However, any action had not been taken in that regard up to end of the year under review.
- (b) A special allowances, 1/3 of the basic salary, had been continuously paid during the last several years to 108 officers comprised of entire officers of the Chairman's and Director General's offices and selected officers from other sections, without obtaining the Treasury approval. A sum of Rs.12,451,408 had been so paid for the year under review. As well, the basis for the selection of officers had not been explained to audit.
- (c) A Jeep, Toyota Land Cruiser, which had been purchased by a subsidiary company of the Authority, the Urban Development and Investment Company, for Rs.17,500,000 in the year 2014 had been used by the Chairman of the Authority since the purchasing date. All the maintenance cost of the Jeep for the year under review had been incurred by the Subsidiary Company and subsequently that expenditure had been reimbursed by the Authority.

### **4.4 Uneconomic Transactions**

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The following observations are made.

- (a) Sums of Rs.92 million and Rs.120 million had been expended by the Urban Development Authority and the National Housing Development Authority respectively up to end of the year 1993 for the construction of 40 storied tower building (podium) in a land, one acres and 23.1 perches in extent, belonged to the Urban Development Authority and located on Station Road, Bambalapitiya. The shops had been constructed on 03 stories of the building (comprising 43,000 square feet) up to end of the year 1993. The Ocean View Development Private Ltd had been incorporated as joint venture of the Urban Development Authority and the National Housing Development Authority in order to rectify the deficiencies of the building and their maintenance and to acquire external lands for development etc.,. Although that private Company had earned the income from renting out the shops in the building, dividends had not been transferred to the Authority from the year 1993 to end of the year 2018. As well, without being charged long term rental, a nominal rent of Rs.100 per month had been charged from said private Company by transferring the property on 99 years long term lease basis. Hence, the Authority had not received any return on the investment.
- (b) No dividend had been received on the investments amounting to Rs.500,000 and Rs.36,309,841 made by the Authority in the Housing Development Finance Corporation and the Colombo Land Development Company respectively.

- (c) Construction of flats for the dwellers who were occupying in the land belonging to the Slave Island Redevelopment Project, had been given to a contractor by the Land Developer and the construction works were scheduled to be completed during the year 2015. However, due to the delays of the contractor, implementing of the project also was delayed. As the result, total amount of Rs.66,694,000 had been paid by the Authority as the additional consultancy fee for the year 2017 amounting to Rs.5,496,000 and monthly rental of Rs.61,198,000 for the dwellers occupied in the said land, until giving them flat units. However, the Land Developing Company had not reimbursed that amount up to end of the year under review.
- (d) A workshop had been conducted on behalf of the Heads of Media institutions, Editors and Media unites and the Cameraman incurring a sum of Rs.3,861,828 from the Urban Development Authority's Fund, in order to convey the forthcoming programmes of the Authority and progress of the Ministry. However, the news relating to the programmes of the Urban Development Authority and the Ministry had neither been published in the newspapers nor on audio visual media after April 2017 or thereafter. An abnormal expenses amounting to Rs.3,861,828 had been incurred for food for 700 journalist and officers and souvenirs and invitations, loud speakers and particularly cashew nuts for journalists.

#### **4.5 Identified Losses**

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Even though, the income collection points of the Authority should be property supervised on daily basis, the income collection of the Baddagana Wetland Park banking of that collected income accurately had not been examined even in once a month period. As a result, the collected income from ticket sales and other income from June 2016 to the date of this report amounting to Rs.3,583,485 had been defrauded by the officers, without being banked the collected money.

#### **4.6 Staff Administration**

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The following observations are made.

- (a) The Authority had not obtained the approval for cadre and the approval for the requirement procedure had not been obtained even up to end of the year under review.
- (b) Without being recruited the high scored candidate at the interview, in recruiting a candidate for the post of Directors (ITS), the thirdly scored candidate had been selected to the post. After recruiting above candidate to the Urban Development and Investment Company, he had been attached to at the Urban Development Authority on permanent basis. On such a ground, that officer had worked at another Public Institution after placing the finger print in the UDA. Although that officer had worked on part time basis, he had obtained full salary, attendance allowances and transport and fuel allowances too.
- (c) Six officers had been recruited for 6 posts which were not included in the cadre that furnished for the approval.

- (d) The following observations are made relating to the recruitments and promotions made by the Urban Regenerative Project.
- (i) By over stating the requirement of the staff for the Urban Regenerative Project, the approval had been obtained from the Department of Management Services to recruit 217 staff members, instead of being obtained the approval for minimum requirement. Despite, the facts that only 60 officers had been required on contract basis.
  - (ii) Nineteen officers who were working in the Authority had been appointed to the Project activities. When making those appointments, the posts such as an Additional Project Director, 8 Deputy Project Directors, 6 Assistant Project Directors and 04 Project Managers etc, had been abnormally created. As a result, the staff cost of the Project have been increased.
- (e) Without being followed the formal procedure, the consultants had been recruited. Notwithstanding, those consultants were not educationally and professionally qualified for the providing of the expected consultancy services.
- (f) Action had not been taken to prepare a minimum cadre estimate for the Authority after being identified the functions of the Authority and to obtain the required approval thereto, since a long period of time. As well, the approval for the requirement and promotion procedure had not been obtained after being determined the minimum qualification and experience required for each post.
- (g) Due to not obtaining of approval for the recruitment and promotion procedure for the posts of the Authority, the officers had been recruited for the posts and promotions had been given by making amendments to the procedures from time to time, during the year under review and in the preceding years too.
- (h) Without being evaluated the minimum service period required in the immediate post, the required service period in the Deputy Director post, to promote to the Director post, had been reduced to 3 years from 3 years. As well, the required service period in the Director post, to promote to the Director General post, had been reduce to 5 years from 7 years.
- (i) According to the Promotion scheme of the Authority that had been furnished for the approval, in order to promote for the Deputy Director General post, 5 years of service experience is required in the Director Post. However, that post had been given to 3 years experienced officer.
- (j) A female officer who had voluntary retired from the service and obtained the gratuity payments too had been irregularly reinstated. Thereafter, within a short period of time she had been promoted to the Deputy Director General post violating the promotion procedure. However, after being highlighted the irregular procedure, she had been placed in a permanent post on contract basis.

## **5. Accountability and Good Governance**

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### **5.1 Corporation Plan**

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In terms of section 5.1.3 of the Public Enterprise Circular No.PED/12 dated 2 June 2003, the Corporate plan prepared by the Authority for the years from 2013 to 2017 had not been updated in the year under review.

### **5.2 Action Plan**

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

### **5.3 Internal Audit**

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The Internal Auditor of the Authority is responsible to the Chief Executive officer of the Authority. The approval for the Internal Audit Programmes had not been obtained from the Auditor General in terms of Section 13(5) of the Finance Act. Even though, the Internal Audit Unit had observed that certain existing systems of internal control appear to be weak, it was observed that an approach to strengthen such system of internal control does not exist within the entity and action had not been taken to strengthen the staff of the Internal Audit Unit as compared the broadening with of the functions of the Authority. Moreover, sufficient attention had not been paid to the performance Audit of the Authority, in the functions included in the Annual Audit Programme.

### **5.4 Procurement and Contract Process**

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The following observations are made.

- (a) A procurement plan for the consultancy services of goods and services and for information systems had not been prepared for the year ended 31 December 2017 by the Authority and a Procurement Plan only for the works had been prepared. As such, it was observed that due to the lack of costs effectiveness in the procurement process, a risk remained in the achievement of the objectives and services of the Authority on the Authority being failed to carry out the Procurement of goods and services in a cost effective manner. Moreover, the Procurement Plan as well prepared for works had not been approved by the Secretary to the Line Ministry.
- (b) Two expenditure estimates totalling Rs.19,049,109 had been prepared for the landscaping activities at the location of the Pussellewa Bus Stop at a cost of Rs.12,417,109 and for the construction of the retention wall at a cost of Rs.6,632,000 and those construction works had been awarded to the Sri Lanka Army. However, written evidence in this connection had not been furnished to audit. Moreover, it was confirmed that the retention wall is not capable of bearing sufficient strength on a part of the retention wall being constructed using cement blocks, instead of constructing it solely using granite. The total cost for the items in the First estimate and 13 items in

the Second Estimate amounted to Rs.6,914,000. However, a sum of Rs.2,749,742 had been spent exceeding that amount.

- (c) An agreement valued at Rs.16,916,094 had been entered into with a contracting company for the construction of Pussellawa Bus Stop and the Shelter for Passengers and a sum of Rs.5,074,543 had been paid to the Company by 14 March 2017. Although, the construction were scheduled to completed as at 11 December 2016, certain of the items of work in the contract valued at Rs.7,077,745 had been delayed up to 06 June 2017. Although, a sum of Rs.1,500,000 had been given by the National Planning Department on 28 December 2016 to the Urban Development Authority, in this connection, only a sum of Rs.5,074,543 had been expended up to 14 March 2017. Moreover, action had not been taken to obtain the consent and the recommendation of the National Building Research Organization in that regard.
- (d) Agreements had been entered into for a contract valued at Rs.108 million and for 05 contracts with 10 per cent contingent liabilities. The design and built contract method is applied by the contractor for special and new contracts due to the lack previous experiences for the works. However, in this connection, without considering the cost escalations incurred for the design and without preparing the Engineering Estimates in the under review. Design and built contracts had been awarded for the construction even for the non-construction activities.
- (e) It had been failed to called for competitive bids for the construction of the entrance to the Kadugannwa Tunnel. Only one Institution had furnished a bid and the contract had been awarded to that Institution, based on a value of Rs.42.5 per cent of the intended estimate calculated for the above construction works.
- (f) In calling for bids for the reconstruction project of the Restoration of the Anuradhapura Koobichcankulama tank, it had been decided to call for limited the complete bids only from the State Institutions. However, bids had been received only from one Institution on providing a limited period of time to bidders to open their bids and, action had been taken to call for bids again by revising the Engineer's Estimates again by the Technical Evaluation Committee on that bid being one exceeding the Engineer's Estimate by 61.8 per cent. Nevertheless, the details relating to the calling of the initial had not been furnished to audit and it was observed that the selection of a contractor remained problematic.

## **5.5 Unresolved Audit Paragraphs**

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

- (a) Even though 128 cases of encroachments had been revealed from the land with 7.35 acres where the Water Edge Company is established, the Authority had failed to take appropriate measures for the removal of encroaches.
- (b) According to the Development Plan of the Kandy Municipal Council's Region, the construction activities could not be carried out within the area of regional natural

conservation zone. However, the clearance certificate had been issued by the Authority.

- (c) The and plots No.6.7 and 8 marked in the Plan No.කො 6399 located at Perera Mawatha, Kotuwegoda, Rajagiriya had been transferred to a private firm for the development on long term lease basis. Without being followed the general procedures, that land had been transferred by the Director (Land Development and Management) in an appropriate manner.
- (d) According to the notified Development Plan for the Kandy Municipal Council Region, accepted ratio for the floor area of a house is 2.5. However, without considering the above ratio, the primary clearance certificate had been issued by the Central Provincial Branch of the Authority.
- (e) Even though, issuing of the Primary Certificate by the Central Provincial Branch of the Authority had been rejected, the Director of the Central Province had taken actions to reissue the rejected certificate.
- (f) Even though, the bare land of 5.32 perches in extent with a higher market value adjacent to Nandarama Housing Complex and owned by the Authority had been encroached by an external party, the Authority had not taken any action to repossessed the land.
- (g) The Authority had not taken action to make use of 11.44 acres of extent of lands that had been vested in the Authority by the Divisional Secretariats of Colombo and Badulla Districts, in the development activities.
- (h) Non-utilization of the Alternative Trade Centre constructed for road hawkers at a cost of Rs.16 million at Saunders Plan in Pettah in the year 2002.
- (i) Out of the them the assessed value of Rs.406,483,000 of the Waters Edge Hotel vested in the Authority in the year 2008 on a Court Decision, a sum of Rs.261,483,000 had not been paid to the Company.
- (j) Even though the Shopping Method could be applied only for the procurement value below Rs.5 million, the Shopping Method had been applied to the procurement of capital goods for the rehabilitation of the Colombo- Race Course valued at Rs.40.64 million and to Proceed of goods related to other projects valued at Rs.72.36 million.
- (k) Two bids amounting to Rs.12,200,240 and Rs.3,800,000 had been furnished to the Authority by 2 contractors for the demolition and removal of the old building at the Housing Complex in Maura Place, Wellawaththa and the sale of debris respectively. However, the Authority had not assigned the task to contractors. Instead, the building had been demolished by incurring funds of the Authority amounting to Rs.6,296,440 and debris had been sold for Rs.750,000, thus causing a total loss of Rs.17,746,680 to the Authority.
- (l) As boundaries had not been marked, security fence lines had not been evicted properly around the land, 103 perches in extent valued at Rs.85 million, located of Madiwala, external parties had encroached those lands, by constructing permanent buildings, and cultivating perennial crops.

- (m) According to the decision of the Board of Directors No.229/2014 dated 26 August 2014, action had not been taken to obtain the ownership of the motor vehicles belonging to the subsidiary company of Peliyagoda Warehouse Complex Ltd.
- (n) The Authority had issued Rs.10 billion worth of debentures in October 2010, redeemable in 5 years with the objective of collecting funds for the national programme, which had not complied with the objectives of the Urban Development Authority Act, on the construction of 68,000 houses for the shanty dwellers in the city of Colombo. However, action 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 5 years. As well, only 5203 Housing Units had been constructed and had been handed over to the General Public, out of the proposed 68,000 Housing Units.
- (o) The approval of the Authority had been granted for the construction of 5 storey building including a Ground Floor in a unqualified land situated in the Region of Borelasgamuwa Urban Council area, contrary to the Gazette Extraordinary No.392/09 dated 10 March 1986 of the Democratic Socialist Republic of Sri Lanka.
- (p) Even though, a service charge of Rs.6,081,048 should be charged to issue the Building Plan Clearance Certificate for a building 1126.2 square meters in extent and belonging to the Central Region, that Certificate had been issued without charging the above service charge.
- (q) The following deficiencies were observed relating to the Urban Regenerative Project:
- Any action whatsoever had been of approximately taken to acquire the lands acres in extent related to 10 Housing Schemes.
  - The Construction Contract had been awarded contrary to the Government Procurement Guidelines and the construction contract, the value of Rs.20.8 billion had been awarded as Unsolicited Proposals.
  - Abandonment of the projects carried out under the Urban Regenerative Project.
  - A sum of Rs.222 million had been incurred for the Bank Guarantees, Commissions and Legal Services in an idle manner.
  - An additional cost of Rs.2,098 million had to be incurred for 65 Housing Units, a sum of Rs.1,066 million had been over paid for Variation Orders issued on 13 contracts, a sum of Rs.143 million had been paid in excess for 39 Housing Units.
  - Failure to recover the rent receivables to the Authority in a regular manner due to the lack of rent agreements.
  - A programme had not been implemented to carry out the maintenance activities of 5,203 Housing Units.
  - A loss of Rs.137 million had been incurred due to transferred of 157 units of houses to the Colombo Municipal Council and due to giving of 205 units of houses to the employees of the Railway Department, those who had occupied in Railway houses, on permanent basis. Hence, it had been unable to had over the houses to the new employees.

## **5.6 Environmental and Social Responsibility**

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The following observations are made.

- (a) Preparation of plans and the implementation of such plans for providing sanitary facilities and the further improvement of such facilities for the General Public in visting to the City of Colombo and suburbs for various requirements is one of the responsibility of the Authority. However, the Authority had not drawn its attention to those responsibilities from long period of time.
- (b) In preparing the Urban Development Plans, substantial attention had not been drawn by the Authority towards the construction of by - roads to eliminate the traffic prevailing in the suburbs cities in Colombo such as Kiribathgoda, Mahararagma, Kottawa, Homagama, Wattala etc.
- (c) Construction of parking spaces in the cities for the general public, who arrive by motor vehicles and the enhancement of such facilities should be carried out by the Authority. Due to not paying of attention of the Authority for providing of said facility, the traffic jam of the cities had been significulty increased.
- (d) To identify the unauthorized constructions and to take actions thereof, the timely investigations had not been carried out by the Investigation Division of the Authority.
- (e) Five thousand eight hundred houses, constructed under 12 Housing Projects as at the end of the preceding year had been vested in occupants. However, for the establishment of Management Committees comprising of the occupants of those houses, in order to carry out the maintenance activities and the management functions of those Housing Schemes, they had not been handed over to the Condominium Management Authority.
- (f) Without paying attention towards using the lands belonging to the Authority for public activities related to the Urban Development, the lands had been leased to the external parties with a view of earning the income, by giving priority for that matter.

## **5.7 Achievement of Sustainable Development Goals**

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The power and functions stipulated in Paragraph 8 of Part – II of the Urban Development Authority Act No.41 of 1978, had been identified as sustainable development goals. The Development of strong infrastructure facilities, encouraging towards modernization through the enhancement of comprehensive and sustainable industrialization and the construction of towns and settlements in a strong, secure and sustainable manner are directly associated with the activities of the Authority. However, on the identification of the sustainable development goals of the Authority, those objective had not been included to the Annual Action Plan of the Authority. Moreover, action had not been taken to prepare Budgetary Estimates for the year 2018 in terms of the Department of National Budget Circulars No.BD/CDB/4/1/2-2018 dated 31 July 2017 and No.2/2017 dated 25 July 2017.

## 6. Systems and Controls

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

<b>Arrears of Systems and Controls</b>	<b>Observations</b>
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(a) Accounting	<p>(i) In preparing of final accounts, the information relating to the Authority and its Subsidiaries, had not been accurately coordinated and the subsequent adjustments made through journal entries had not been accurately updated.</p> <p>(ii) The Debit and Credit Balances in the accounts unusual set-off each other and subsequently, had been with the balances had been adjusted to the accounts.</p> <p>(iii) Many Account Codes had been shown in the Trial Balances relating to the Debit and Credit Balances of the same account and the existence of many prior year adjustments.</p> <p>(iv) Due to the weakness in the computerized accounting system, scope of the Auditors had been restricted.</p>
(b) Control of Debtors and Creditors	<p>(i) According to the confirmation of balances there were contentions disagreements on the accuracy of the balances.</p> <p>(ii) Delays in the updating of the Debtors' Accounts and the non-submission of Debtors' Time Analysis.</p> <p>(iii) Proper actions had not been taken to recover the receivables from debtors.</p>
(c) Budgetary Control	Not preparing rational estimates and of

expenditure had been incurred controlling the budget.

(d) Revenue Management

Not conducting supervision relating to the daily collection of revenue and depositing them in the funds and prevailing of funds thereon.

(e) Assets Management

(i) Existence of underutilized assets, the assets had not been correctly documented, verification of Assets Reports had not been properly maintained.

(ii) Weakness in utilization of land contrary to the objectives of the acquisition of the lands leased out to third parties and non-utilization of land for Urban Development activities.

(f) Procurement Process

There were some instances deviating from calling for competitive bids.

(g) Human Resource Management

Giving Promotions and recruitments had been carried out without following the procedures, and the plans had not been prepared for the recruitment of the existing vacant posts.