

1. Financial Statements

1.1 Disclaimer Opinion

The audit of the financial statements of the Urban Development Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Provisions of the 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. Because of the significance of the matters discussed in the paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

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

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 Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's 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 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 Auditor’s Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Authority’s financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor’s report. However, because of the matters described in the basis for disclaimer of opinion section, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Financial Statements

1.5.1 Internal Control over 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 maintain of key accounting records such as drawing of cheques, use of formats, payment vouchers etc. are shown below.

Audit Observation

Management Comment

Recommendation

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| <p>(a) When accounting of a transaction through a Journal voucher, the approval for requirement to make adjustment and correct and relevant double entry, should be obtained from a higher rank manager or from a management committee. However, it was observed in audit that such supervision had not been maintained when making adjustments through the Journal entries. As such, the adjustments totaling Rs.66,054 million had been made by putting 13,148 debit entries and 28,686 credits entries in the accounts. Further, any officer in the Finance Division and another Division had been allowed to put the Journal entries, without vesting the authority. Hence, it was observed that a ground to make frauds by making adjustment to the account balances of the authority had been created.</p> | <p>Accounting of every Journal entries had been put into the accounting system after obtaining the required approvals from Accountant/ Assistant Director/ Deputy Director. Accordingly, any offer not allowed to make the adjustments to the accounting system. Many material transactions had been added to the accounting system through the Journal entries. Anyhow, it was proposed to implement a procedure to put the Journal entries into the accounting system under the supervision of a senior manager, since November 2020.</p> | <p>Action should be taken to make adjustments through the Journal entries in the accounts, under the supervision of a senior officer and with delegation of authorities.</p> |
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| <p>(b) An audit trail facilities had not been provided in the computerized accounting system of the Authority, by facilitating to enter into the system and to obtain the report as required. Thus, as it was not provided the facilities to obtain the particulars of the assets, liabilities, income and expenditure, the audit scope thoroughly limited. Even though that had been pointed out by audit since many years, the errors had not been rectified even up to end of the year under review.</p> | <p>It was planned to implement a procedure to put the Journal entries into the system under the supervision of a senior manager since November 2020.</p> | <p>Action should be taken to make adjustments through the Journal entries in the accounts, under the supervision of a senior officer and with delegation of authorities.</p> |
| <p>(c) Even though daily and thorough supervision should be implemented at the income collecting centres, a regular supervision had not been conducted relating to collecting of ticket sales income and other income and banking the income at the Baddaganaa Bio Diversity Park atleast monthly basis. As a result, over a sum of Rs. 3,583,485 that collected for the period from June 2016 to date of the draft report, had been fraudulently obtained.</p> | <p>A pilemerary investigation had been conducted by the Urban Development Authority (UDA) relating to the financial fraud amounting to Rs.3,583,485 took place during the period from 15.06.2016 to 31.07.2018. Even though the UDA had made a complaint at the Mirihana Police Station on 28.12.2018, it was referred to the CID owing to the fraud connected with the public properties. However, after obtaining legal instructions, the complain had been made to the Mirihana Police Station on 09.01.2019.</p> | <p>Action should be taken to avoided the frauds by introducing a correct internal control system.</p> |

1.5.2 Non- Compliance with Sri Lanka Accounting Standards

Audit Observation	Comment of the Management	Recommendation
<p>According to the audited financial statements of the subsidiary Company of Waters Edge Ltd for the year under review, the receivable amount from the UDA amounted to Rs.1,621,953. Nevertheless, according to the financial statements of the UDA, corresponding amount had not been shown as payable amount. As well, according to the Sri Lanka Accounting Standard No.24, those transactions had not been disclosed as the related party transactions.</p>	<p>Some transactions had been shown in the accounts of the Authority as accrued expenses though they not shown as related party transactions. When coordinating with the company, it was observed that some transactions not related to the Authority.</p>	<p>The related party transactions should be correctly disclosed in the Financial Statements.</p>

1.5.3 Accounting Policies

Audit Observation

Comment of the Management

Recommendation

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| <p>(a) When accounting of investment properties of the Authority, an accounting policy had not been identified with regard to the dispose of lands and other properties on 99 years or less lease basis, so as to specifically identifying, valuation and accounting basis of those properties. Hence, the accuracy of the investment properties that had been shown in the financial statements at a value of Rs. 91,781 million, without following a specific policy and being valued them on many basis, could not be accepted in audit.</p> | <p>A system to identify all assets of the Authority has been implemented including the investment properties. After implementing of that process, the lands disposed on 99 years lease basis could be separately identified.</p> | <p>Action should be taken to correctly identify the investment properties and shown in the financial statements. The details of the investment properties should be furnished to audit.</p> |
| <p>(b) Contrary to paragraph 02 and 06 of the Sri Lanka Accounting Standard 02, the apartment houses valued at Rs.29,196 million constructed to transfer to the low-income families had been shown in the financial statements of the Authority as trading stock under the non – current assets. However, an accounting policy for disposing of houses, identifying of construction costs and exchange of houses, had not been introduced by the Authority.</p> | <p>Only after issuing the work completion certificate for the houses, it had been transferred to the trading stock.</p> | <p>The apartment houses should be defined as a trading stock which held for normal course of the business of the Authority and an accounting policy should be introduced regarding them.</p> |

1.5.4 Accounting Deficiencies

Audit Observation

Comment of the Management

Recommendation

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| <p>(a) Even though the profit from sale of apartment houses amounting to Rs.46,841,693 had been shown in the comprehensive income statement, the details relating to the computation of the profit from sale of houses indicating the difference of construction costs and market values of the lands had not been furnished to audit. Further, the profit from sale of houses in the years 2016 and 2017 amounting to Rs.31,933,299</p> | <p>Those apartment houses constructed for low income families had been classified as the apartment houses and disclosed in the financial statements of 2019, instead of classify as trading stock. The Authority has been developing a policy in that regard. Accordingly, action will be taken to disclose the policy in forth coming accounting years.</p> | <p>The apartment houses should be defined as a trading stock which held for normal course of the business of the Authority and an accounting policy should be introduced regarding thereon.</p> |
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had been adjusted to the profit of the year under review instead of being accounted for as prior year adjustments. Hence, the profit of the year under review had been overstated by that amount in the financial statements.

(b) The recoverable taxes amounting to Rs.36 million from the National Security Levy (NSL) and Goods and Services Tax (GST) which are not currently prevailing in the country, had been shown in the financial statement as state tax debtors. As a result, the debtors balance shown in the financial statements had been overstated by that amount.

The Goods and Services Taxes and National Security Levy which are currently not prevailing in the country had been shown in the financial statements as those taxes receivable from the clients. Since those balances can not be recovered, a Board Paper had been furnished and the approval will be obtained before 31.12.2020

Necessary action should be taken with regard to the balances which are not legal base to recover.

1.5.5 Unreconciled Control Accounts or Records

Audit Observation

A total difference of Rs.675.5 million was observed between 13 account balances shown in the financial statements and corresponding detailed schedules. Further, although the receivables from 8 state Institutions amounting to 416.25 million had been shown in the financial statements of the Authority only 2 Institutions had been shown their financial statements as payables to the Authority amounting to Rs.61.9 million, out of those Institutions. Further more, according to the financial statements of the Authority, a sum of Rs. 225.2 million had been shown as payables to 2 public Institutions. However, a difference of Rs. 174.3 million was observed between the corresponding balances shown in the financial statement of those public Institutions. Nevertheless, action had not been taken to make the necessary adjustments in the financial statements in that regard.

Comment of the Management

The differences in the opening balances in the accounts were revealed continuously and actions have been taken to identify the differences. When preparing the financial statements, as at 31.12.2020, those tasks could be completed.

Recommendation

Action should be taken to make the adjustment in the financial statements, after being identified the differences in opening balance which had been existed since many years.

1.5.6 Consolidations

Audit Observation

Comment of the Management

Recommendation

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Audit Observation
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Recommendation
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| <p>(a) When preparing the consolidated financial statements of the Authority, the consolidation had been made on the base of audited financial statements financial of the Subsidiary Companies of the Authority for the year 2018 i.e the Urban Investment and Development Company, Waters Edge Ltd and the Lanka Rest House (pvt) Ltd. The Peliyagoda Warehouse Complex Company had not furnished the financial statements since the year 2017. Entire shares of those 04 companies are owned by the Authority. The investment value of the Peliyagoda Warehouse Complex Company as at June 2017 amounted to Rs.500. That investment value had been reduced by that amount and the Company had been acquired by the Authority since August 2017. However, required adjustments to the assets, liabilities and other transactions had not been made.</p> | <p>Comment had not been given.</p> | <p>The investments in the Subsidiary Companies should be adjusted in the financial statements with related assets, liabilities, Equity, income and expenses. As well, the consolidated financial statements should be prepared in accordance with Sri Lanka Accounting Standards.</p> |
| <p>(b) A request had been made to issue the shares to the Waters Edge Company, a Subsidiary Company of the Authority, for the consideration of lands and building valued at Rs.642.5 million, that transferred on the court order to the Authority and for a sum of Rs. 200 million given for repairing costs. However, the shares had not been issued up to 31 December 2018. Even though it had been disclosed in the financial statements of the Waters Edge Company that pending allotment of shares amounting to Rs. 842.5 million was existed, according to the financial statements of the Authority that value had been shown as Rs. 436 million. As a result, that investment value had been understated by Rs. 436.5 million and reasons for the understatement had not been disclosed in the financial statements.</p> | <p>Comment had not been given.</p> | <p>As a parent of the Waters Edge Ltd, the operations of the Company should be conducted in accordance with the Court orders and the approvals of the Ministry.</p> |

1.5.7 Lake of Evidence for Audit

	Item	Amount (Rs Million)	Evidence not make available	Comment of the Management	Recommendation
(a)	Investment Properties (the lands extend of 1167 acers belonging to Parliament Complex)	5,782	Details of acquisition and valuation reports	The road development activities in the land acquired for the Parliamentary Complex had been carried out by the Road Development Authority, Provincial Road Development Authority and relevant Local Government Authorities. The development activities of the tanks and cannels had been conducted by the Land Development Corporation. Further, it should be further informed that the lands extent of 1167 acres, 3 roods and 36.9 perches are situated in the Divisional Secretariat areas of Kaduwella, Maharagama and Sri Jayawardanapura Kotte.	The details relating to the investment properties should be furnished to audit.
(b)	Lands	90.8	Lands Register	In the computerization process of the lands belonging to the Authority, 1637 files had been completed up to September 2020. The Computerization process of the lands, scheduled to be completed by end of June 2021.	A detailed register for lands belonging to the Authority should be maintained
(c)	The balances generated thorough the computerized Accounting System				
(i)	Debit balances	38.34	Details relating to the adjustments.	When computerizing the accounting system in 1982, the transactions conducted since the year 1979 had also been included to the system. However, the balances generated from the computerized system had not been tallied with the values in the balance sheet, in some instances. Such untallied balances had been shown in	After being adjusted the particulars relating to the unidentifiable balances in the accounts, the accounting system should be updated.
(ii)	Credit balances	229.08			

the accounts as unidentified balances or opening balances in the accounting records. A Board Paper will be furnished on or before 31.10.2020 with a view to get the approval to make the required adjustments.

(d) Work-in-Progress	28,817	The details of borrowing costs, divested properties and other adjustments which had been adjusted to the work-in-progress values.	A program had been implemented according to a time table, in order to take necessary actions relating to the projects in the work-in-progress account. Thus, it had been requested to furnished the details relating to the projects on or before 15.10.2020. Based on that information, it will be decided that whether it relevant to keep in the accounts as same as or if it not relevant, to make adjustments in the account under the correct expenditure categories.	The Projects which are not come under the purview of the Authority should not be shown under the work-in-progress of the Authority. The Work-in-progress balances should be correctly adjusted and shown in the financial statements.
(e) Differed lease liabilities	539	The details relating to the adjustments made to the lease balances.	Leasing of properties without entering into agreements, completed preparty sales, but had signed the lease agreements so far and account of received advances as long term leases and cancelling of agreements are represented the debit balances amounting to 118,580,368. The rent agreements had not been singed so far relating to the old balances shown in the differed lease rent register. After being singed the agreements, commencement date of the agreement will be entered in the register. For easy reafference, the older years had been entered to the register. When preparing the financial statements for the year 2020 corrections will be made.	Discloses relating to the investment properties and differed lease rents should be made in the financial statements. In order to correctly maintain the registers submit with the financial statements, required internal control system should be introduced by the management.

(f)	The receivables from the houses transferred to the beneficiaries from the housing schemes belonging to the Urban Regeneration Project.	166.8	Detailed schedules and age analysis	The opening balances for the current system had been obtained from the old accounting system. Age analysis can not be obtained for the housing projects. That had been informed to the software suppling firm and it had been palmed obtain a age analysis as at 31 December 2020.	In order to enhance the audit trail, action should be taken to minimize the prevailing weakness in the accounting system and the information should be updated for the future needs.
(g)	Investment Properties	97,781	Investment property Register	A program had been introduced to separately identify the investment properties.	Details relating to investment properties should be furnished to audit.

1.6 Account Receivable and Payable

1.6.1 Amount Receivable

Audit Observation

Comment of the Management

Recommendation

(a)	Even though debtor balances and receivables as at 31 December of the year under review amounted to Rs. 1,729 million, an age analysis for receivable had not been furnished to audit. According to an audit test check, out of the debtor balances, 24 debtor balances totaling Rs.536 million were remained as unrecovered since the year 2013 and any transaction had not been made in those accounts and continuously remained in idle. Further, without having any acceptable basis, a sum of Rs. 918.3 million had been provided as accumulated doubtful debts for those debtor balances.	Comment had not been given.	Debtors generated from operating activities should be control and prompt action should be taken to recover them. A formal procedure for transaction on credit basis to be prepared and the Treasury approval should be obtained thereon. Action should be taken to recover the accrued income according to the provisions in the agreements.
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- (b) When renting the properties of the Authority on monthly rent basis or lease basis, the evaluation relating to the assets, monthly income and ability of loan repayment of the customers had not been carried out before renting the properties. As a result, the rent receivables were continuously increased year by year. Hence, provisions for losses/impairments had to be made at higher percentage ranging from 35 per cent to 77 per cent even for below one-year receivables and this situation was indicated the inefficiency of debt recovering activities of the Authority. It was observed that there was tendency to create bad debts.
- The provision for doubtful debts ranging from 35 per cent to 77 per cent for less than one-year debtors were made based on the instructions given by the auditors those who make an evaluation for debts recovering process in the years 2015/2016. Those percentages for provisions had been applied for the years 2017 and 2018 After considering the debt collection progress of the year 2020, those percentages will be readjusted.
- Legal action should be taken against the rent payment defunding customers. As well, action should be taken to re-posses the rented-out assets from the lessees.

1.6.2 Amount Payables

Audit Observation

Comment of the Management

Recommendation

A creditor balance amounting to Rs. 77,847,384 related to the development expenditure were remained as unsettled and shown in the financial statements for over 06 years. As well, even though the maintenance deposits amounting to Rs. 7,255,110 had been shown under the current liabilities, an unsettled balance amounting to Rs.7,063,500 that was included in the above balance were existed as unsettled for over 5 years.

A creditor balances amounting to Rs. 77,847,384 was remained as unsettled without being changed for over 6 years.

Action should be taken to findout the non-liaible balances, out of the payables, and action should be taken to write - off those non-liaible balance as income.

1.7 Non-Compliance with the Laws, Rules, Regulations and Management Decisions.

Reference to Laws, Directions, Regulations

Non – Compliance

Comment of the Management

Recommendation

- (a) Section 8 (i) of part II of the Urban Development Authority Act No.41 of 1978
- Even though a land use policy should be formulated and implement by the Authority, action had not been taken in that regard up to end of the year under review.
- Comment had not been given
- Action should be taken according to the requirements of the Act.

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| (b) | Section 8 (a) of part II (a) of the Urban Development Authority (amended) Act No 4 of 1982 | In order to provide vehicle parking facilities to the general public, coming by motor vehicles for various requirements, the Authority should take actions to provide parking places and action should be taken to develop such facilities. However, the Authority had not pay its adequate attention to provide such facilities. As a result, the traffic congestion of the city of Colombo and suburbs had been increased. | Comment had not been given | Action should be taken according to the requirements of the Act. |
| (c) | The 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 per month had been paid to the professionals of the Authority, Engineers, Architects, Lawyers, Accountants, Town Planners and Quantity Surveyors etc. with effect from 01 July 2014. However, the particulars relating to payment of professional allowances had not been furnished to audit. | Based on the approval given by the Board of Directors, a monthly professional allowance of Rs.15,000 had been paid. Although it had been requested the approval from the Management Services Department, the replies had not been received so far. | Actions should be taken against the officers those who made the payments without having the approvals according to the Management Services Circulars. |
| (d) | The Public Administration and Management Circular No 2016/05 dated 09 March 2016. | Sectional Heads posts had been created in between two posts of the Director and Deputy Director posts, although that posts were not in the cadre of the Authority which has furnished to approval. Six officers had been recruited for those posts during the year under review and approval had been given to use their private motor vehicles as their official vehicles. Further, a fuel | Comment had not been given | Following only the Circular instructions, the allowance should be paid. |

allowances had also been paid continuously. However, the amounts paid so, had not been furnished to audit. Further more, those new posts had been granted to them as service promotions.

- (e) The public Administration Circular No. 2008/14 dated 26 June 2008 and the Public Enterprises Circular No. PED/2015/1 dated 25 May 2015. The Drivers had been provided for 20 officers those who had obtained the vehicle allowances by using their private motor vehicles, although it was not allowed. Only the overtime payment had been paid to those Drivers for the preceding year and the year under review amounting to Rs.30,186,085 and Rs.3,679,290 respectively. Seventeen motor vehicles belonging to the Authority had been sold by public auctions. Therefore, the approval for the use of private motor vehicles as the official motor vehicles, had been given according to the Board Paper No. 296/2017. Accordingly, the Drivers had been provided to the Directors and the Divisional Heads in addition to payment of vehicle allowance considering the travelling of long distances for the service requirements. At present, 28 motor vehicles had been purchased and provided to the Directors and Higher officials. The Circular instructions should be followed.
- (f) The Management Services Circular No. 30 dated 22 September 2006 and the 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 pots in a new salary structure, approval of the National Salaries and Cadre Commission had not been obtained to implement the proposal. Nevertheless, the Authority had taken action to grant The cadre of the Authority had been approved by the Management Services Department on 03.01.2020. Nevertheless, only 1670 cadre had been approved and that cadre was not enough for the establishment plan of Action should be taken to given the promotion, according to the Circular instructions. It should be acknowledged the officers about the promotion schemes in transparent

	<p>promotions to officers based on the proposed cadre composition, without being obtained the prior approval. Although it had been instructed to inform the officers about the marks allocation procedure for the promotions, it had not been done so.</p>	<p>the Authority scheduled to be implemented during the period 2020 – 2024. Hence, a revised cadre of 1831 posts had been resubmitted on 21.07.2020 for the approval. Based on the approval given by the Board of Directors on 03.09.2019, vide Board Paper No.367/2019, the promotions had been given to the officers. All future recruitments will be made based on the approved cadre structure and the marking scheme will be informed to the officers.</p>	<p>manner.</p>
<p>(g) The Public Finance Circular No. 01/2016 dated 08 January 2016.</p>	<p>When it 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, 11 Consultants had been recruited and the details relating to the payment of salaries, allowances and other remunerations to the consultants had not been submitted to audit.</p>	<p>Based on the decision, made by the Board of Directors of the Authority and based on the direction given by then Secretary to the Ministry, 5 Consultants had been recruited to accomplish the objected functions and the service of the above 4 consultants, out of 5, had been terminated now. The cabinet approval going to be obtain according to the Circular instructions for future course of actions.</p>	<p>After being specifically identified the duty of the consultants, the consultants should be recruited following instructions of the public Finance Circulars.</p>
<p>(h) The Public Enterprises Circular No. PED/12 dated 02 June 2003</p>	<p>The Quarterly Progress reports of the Authority had not been sent to the Public Enterprises</p>	<p>Even though it had been delayed to furnish the quarterly progress</p>	<p>Action should be taken to submit the quarterly reports</p>
<p>(i) Paragraph 4.2.6</p>			

	Department within 30 days of the closure of the relevant quarter.	reports to the Department of Public Enterprises, action had been taken to furnish those report on stipulated time in future.	within the stipulated time period.
(ii) Paragraph 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 Waters Edge Hotel Development Company, on 21 November 2014.	Those Companies had been established according to criteria of the development objectives of the Authority that prevailed at that time and based on the development criteria of the Authority and decisions made by the Board of Directors of those Companies. However, action will be taken to make final decision on that regard after being held discussions with the new Board of Management.	The investments should be made in accordance with the requirements in the Company Act and circular instructions.
(iii) Paragraph 9.14	A procedure relating to the Human Resource Management, should be prepared and get the approval and otherwise, provisions in the Establishment code relating to the Human Resource Management should be applied. Nevertheless, necessary action had not been taken accordingly.	At present, the provisions in the Establishment code are being applied. When it deviating from the above requirements, the approvals have been taken as per the requirements.	When it deviating from the Establishment code, the approval of the Ministry of Public Administration should be obtained.
(i) The 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 any other Public institution, 19 employees of the Authority had been released to other public institutions contrary to that direction. Further, 08 others had been released to the Urban	There was no a human resource plan to the Subsidiary Company of Urban Investment and Development Company. Hence, based on the service requirement of that Company, 08 officers of the Authority	The officers of the Public Enterprises should not be released to the service of the Ministries and other institutions and it should be complied with the

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| | <p>Investment and Development Company on secondment basis and in turn 79 officers of the Company had been attached to the Authority. The details of the payments of remunerations paid to those officers had not been furnished to audit.</p> | <p>had been released to that Company on secondment basis. Further, 79 officers of the that Company had been attached to the Authority due to service requirement for which preparation of the development plans and planning duties.</p> | <p>circular instructions.</p> |
| <p>(j) Schedule V and paragraph 7 of the Extra ordinary Gazette No. 8/597 dated 17 April 2009 of Democratic Socialist Republic of Sri Lanka</p> | <p>According to a survey conducted by the Authority in the Grater 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 regularized them by charging a fee for covering approval and a fee for change the utilization, if they can be regularized or to remove the un authorized constructions.</p> | <p>The Director (Legal) had informed that in order to legalize the applicable conditions, they should be gazette. Hence, action had been taken by the Consultancy Committee to gazette and it had been furnished to the Hon. Minister for the approval.</p> | <p>In order to Minimize the disasters and environmental effects cause nearby the canals and to take prompt action relating to unauthorized constructions, action should be taken in accordance with the rules and regulations.</p> |
| <p>(k) Paragraph 3.4 of the President Secretariat Circular No. SP/RD/02/10 dated 03 February 2010</p> | <p>Without being used for the acquired purpose, the land required by the Authority had been given to private institutions on long term lease basis and some high valued lands had been given to construct luxury apartments.</p> | <p>Even though it had been mention that lands had been used for another activities other than the acquired purposes, the acquired lands had been released for various urban development activities. If lands had been acquired without having the specific purposes, such lands had been released by making amendments to the acquisition purposes.</p> | <p>If it not specifically mentioned the land acquisition purpose, it could not be done the amendments to the purpose. Hence, actions should be taken according to the President Secretariat Circular.</p> |

- (l) The Public Enterprises Circular No. 95 dated 14 June 1994
- Contrary to that circular instructors, an additional allowance, 1/3 of the basic salary, amounting to Rs. 16,670,367 had been paid to 132 officers those who attached to various projects of the Authority on fulltime basis. In addition to that another sum of Rs. 1,457,694 had been paid for 43 officers, from 1/6 of their basic salaries during the year under review.
- Considering the fulfillment of additional works, covering of duties of higher posts than the permanent posts, fulfillment of official duties and additional duties than that of the permanent duties, the allowance of 1/3 and 1/6 from basic salary had been paid on the recommendation given by the Divisional Heads and the approval given by the Head of the Institute in accordance with the Establishment Code. In addition, project allowances had been paid to the officers those who were assigned to the additional works other than the permanent duties as per the Management Services Circular No.01/2016.
- Action should be taken according to the circular instructions.
- (m) Companies Act No 07 of 2007.
- (i) Section 330
- To liquidate the Peliyagoda Warehouse Company by voluntary, Liquidator had been appointed on 31 July 2012. However, the Company had not been liquidated up to 25 April 2020. Even though in the event, the winding up is continuing for more than one year, the Liquidator should summon a general meeting of the Company, the Peliyagoda Warehouse Company had not held such meeting accordingly.
- The whole ownership of the Peliyagoda Warehouse Ltd is vested with the Authority. Therefore, although it had not been summoned the general meetings, the reports relating to the activities of the company have been submitted to the Board of Management of the Authority. The Company had performed its functions according to the Board directions.
- Even though whole ownership the Peliyagoda Warehouse Ltd is vested with the Authority, the general meeting should be held as an independent company. The meeting reports should be furnished to the Register of Companies.

1.8 Information Technology General Control Systems

Audit Observation	Comment of the Management	Recommendation
<p>Without continuing the implementation of Enterprise Resource Planning System as per the scheduled plans of the Authority, an agreement had been signed to install and maintain an Accounting Computer Software Package at a cost of Rs.8.3 million in the year 2016. According to the agreement, the customized Accounting Software Package should be installed within 120 days since the agreement date. However, even after lapse of 2 1/2 years as at end of the year under review, since the date of the agreement, the Authority had failed to achieve the expected outcome of which formalizing of accounting system and obtaining of required accounting information.</p>	<p>As there was a urgent requirement to install a new accounting system, a firm had been selected after being followed the tender procedure. The new system has been already installed. Hence, it could be informed that the required schedules and reports can be generated using the accounting system.</p>	<p>The computerized Accounting package should be installed after identifying the requirement of the Authority and within the agreed time period, the system should be implemented. As well, the system should be used to information generation process of the Authority.</p>

2. Financial Review

2.1 Financial Results

The operating result of the year under review pre tax profit of Rs.769.2 million and corresponding pre tax profit of the preceding year amounted to 99.9 million. Therefore, an improvement in the financial result amounting to Rs. 669.3 was observed. Increase of interest income by Rs.78.3 million had been mainly attributed this improvement in the financial results.

2.2 Trend Analysis in the main income and expenditure items

- (a) Compared with the preceding years, the income of the Authority was increased to 1,702 million from Rs.1,557 million by 10.33 per cent. Increase of rent income by 9.29 per cent, fee for services rendered by 12.77 per cent and interest income by 57.68 per cent had been mainly attributed for that increase.
- (b) Compared to the preceding years, the administration expenditure of the Authority, the main expenditure category, had been increased by Rs. 840 million or 29.8 per cent. Increase of salaries and allowances by Rs. 367 million, repairing and maintenance cost by Rs 129 million and water bills by 157 million had been mainly attributed for the increase of the administration expenditure.
- (c) Compared to the preceding year, the financial expenditure of the Authority was decreased to Rs. 28 million to Rs. 811 million by 96 per cent.

2.3 Ratio Analysis

The net profit ratio of the Authority for the year under review was increased to 31.3 per cent from 4.4 per cent compared to the preceding years. Increase of other income from Rs.1,673 million to Rs.2,340 million by Rs. 667 million or 39.86 per cent and compared to preceding years, decrease of financial expenses by Rs. 783 million were mainly attributed for this improvement.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
(a) An uneconomic expense amounting to Rs. 5,010,039 had been incurred for the ceremony organized to handing over of ownership to the residents of the Maligawaththe "Lak Hiru Sewena" housing complex that had been constructed under the housing development project conducted for the people in low facilitated settlements in the city of Colombo and suburbs.	The objectives of inform the peoples about the development activities that conduct by the Authority and motivation of recipient of houses had been achieved through that advertisement expenses. Hence, that expenses were helped to enhance the image of the Authority.	The events should not be organized by incurring government money causing additional burden to the Authority.
(b) A sum of Rs.11.9 million had been incurred by the Authority for the new year festival ceremony organized by the Ministry of Megapolice and Western Development, held at Independence square and Arcade premises on 8 April of the year under review. However, Although it had been incurring such a huge amount on behalf of the Ministry or anther Institute, the Authority had not considered the benefits expected to be gained by the Authority and requirements of the expenditure.	The approval for expenditure incurred by the Authority amounting to Rs. 11,992,500 had been obtained from the Board of Directors on 02.05.2018. Due to not finding of sponsor for the cultural show as expected, the related expenditure had been significantly increased up to Rs.11,992,500. In order to encourage the general public, the new year festival had been organized and the above expenditure had been incurred subjected to the approval of the Board of Directors.	Contrary to the objectives of the Authority, the expenditure should not be incurred.
(c) The Authority had incurred a sum of Rs.18,326,230 for the opening ceremonies of the Sukitha Purawara Development projects implemented under the Line Ministry instead of being incurred that expenditure through the expenditure object of the Ministry. The approval of the Board	The approval had been granted to pay 6 per cent of income as a consultancy fee from the project cost. Hence, after obtaining the approval of then Director General, the payment had been made by the Authority.	Action should be taken to incur the expenditure on relevant authority.

of Directors had not been obtained for the incurred expenditure and the Event Organizing Firm had been selected without following acceptable procurement procedure.

(d) Any dividend had not been received up to end of the year under review, on the investments made by the Authority in the Housing Development Corporation amounting to Rs. 500,000 and in the Colombo Land Development Company amounting to Rs.36,309,841.

(e) In order to construct apartments and shops in a land belonging to the Authority extent of one acre and 23.1 purchases and located Bambalapitiya station Road, sums of Rs. 92 million and Rs. 120 million had been respectively incurred by the Authority and the National Housing Development Authority as at end of 1993. As well, in order to manage that property, a Joint venture Company namely Ocean View Development Company had been established as a joint venture of the Authority and the National Housing Development Authority. Even though that Company had earned the income from renting the buildings since the year 1993, any dividend had not been paid to the Authority upto end of the year 2018.

(f) A land extend of about 10 acres situated at Rajagiriya Madinnagoda had been planned to transfer to a private company without being called tenders, and according to the memorandum of understanding entered in by two parties, a sum of Rs.27 million had been paid by that company to the Authority. Subsequently, that memorandum of understanding had been cancelled by the Board of Directors. As a result, according to the paragraph 04 of the agreement, the paid amount by the company had to be repaid with a 12 per cent annual interest as a legal condition. Accordingly, the Authority had to pay a sum of Rs.14,348,027 as the interest.

Future course of action going to be taken against the companies which not pay the dividend, after being acknowledged the Board of Directors.

It would like to inform that declaration of dividends by that company is determined based on the profit earned for the year and other matters. However, a sum of Rs. 1,213,003 had been paid to the Authority as dividends in the year 2014. Further, action will be taken regarding not paying of dividends by the Company.

The payment of interest had to be made based on the memorandum of understanding as a legal requirement.

Proper attention should be drawn to obtain dividends for the investments of the Authority.

When transferring of lands and building belonging to the Authority, that activities should be carried out following the prevailing rules and regulations and without being incurred losses to the Government. As well, necessary action should be taken to monitor the management weakness of the companies.

Immediate action should be taken to settle the payables and minimize the payment of interest.

3.2 Identified Losses

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) A land belonging to the Authority, located at adjoining D.R.Wijewardana Mawatha and extent of 2 acres, 2 roods and 21.4 perches had been leased to a private Company for 99 years long term lease basis. When leasing the land, the approval of the Board of Directors had not been obtained and the land had been leased below the Government value by 330 million. Even though the Authority had incurred a loss of Rs. 330 million, any action had not been taken in that regard up to end of the year under review.	According to the direction given by the Secretary to the Ministry, action already had been taken to recover that amount from the lessee.	When leasing the lands of the Authority, the lease amount should be determined based on the valuation made by the Government Valuer.
(b) A compensation amounting to Rs. 72,257,674 had been paid to the owners of land plots acquired for Thirasara Purawara Development Programme, in the area of Moratuwa Aluthmawatha. However, due to the inefficiencies in the payment of Compensation, an additional interest amounting to Rs. 4,034,154 had to be paid.	That land had been acquired as per the requirement of the REAL Company Ltd. In the early stage, the Treasury funds had been released to the REAL Company for acquisition of lands and then transferred to the Authority. Subsequently, due to inactivate of the Company, said Treasury provisions were not received. In such a situation, the interest and compensation had been paid by the Authority.	In order to make the compensation payments within a specified time period, a system should be introduced and implemented.

3.3 Management Inefficiencies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) According to the financial estimates of the Urban Regeneration Project and the instructions and proposal given by the Cabinet of Ministers, the lands acquired for the enterprises should be used for the investment activities in order to generate the funds. However, many lands acquired by the Authority had not been used for such income generation projects and in order to generate the funds, required business plans had not been prepared up to end of the year under review.	Out of the high value lands released to the Authority, transferring of Wellawaththa Maura Place land on long term lease basis for the development activities had been completed. The lands which could not be released on such long term lease basis, had been released based on medium and short term lease basis and a considerable income have been earned by the Authority from said leasing. In addition, the similar	Before implementing the projects, the feasibility studies should be conducted and the plans should be prepared for the projects.

proposals for the development of lands had been called by the Business promotion Division, acceptable proposals had not been received. Therefore, some lands had been selected to construct the apartment houses under the Urban Regeneration Projects.

(b) The Trans Work Square land in Colombo Fort had been transferred on long term lease basis less than the market value for Rs.4,999,706,950 to a locally registered foreign private Company. Even though it had been proposed to recover the difference between the leased value and the market value, amounting to of Rs. 1,250,400,000 that had not been recovered.

When leasing the lands belonging to the Authority, the lease value is decided by taking in to account the lease period. As stated in the audit quarry, the lease value for 99 years period for the Transwork land in Fort had been paid by the investment company to the Authority. The difference between the market value and the lease value of the land, will be recovered from the sales of houses constructed by the company, based on the ratio allocated for the houses. As that procedure is applied for mix development projects, the Authority also has to follow that procedure due to the lack of another acceptable alternative.

Action should be taken to recover the difference between the market value and the leased value of the property according to the policies of the Authority and without incurring a loss to the Government.

(c) Sixty four employees those who were not in the approved cadre of the Authority had been recruited through a subsidiary Company of the Authority and assigned to the service of the Authority paying a sum of Rs. 51,175,500 as salaries and allowances.

According to the service requirement existed at that time, having the approval of the Board of Directors and publishing a notice in the web page of the Authority, that staff had been recruited. Majority of the applicants for the posts were employees worked in contract basis in a subsidiary Company. The Management Services Department had approved those posts on 03.01.2020 including to the approved cadre.

The required cadre for the Authority should be recruited based on the approval given by the Management Services Department.

(d) Without being followed a formal procedure, the Consultants had been recruited by the Authority. The required educational and professional qualifications to provide the service were not fulfilled by those Consultants.

A working Director post was not included to the prevailing Human Resource Plan of the Authority. However, that appointment had been given by the Line Minister. As this Working Director post was not in the

The approval of the Management Services Department should be obtained for the required cadre of

permeant cadre, there were no related duties/responsibilities to the post. According to the public Enterprises Circular No. PED 3/2015, the allowances had been paid. the Authority.

(e) Contrary to the lease conditions and the conditions in the bid notices given, when leasing the Charmas Grenary land in Petta, sub-leases had been given and indirect approvals had also been given for the permanent shops. As a result, the legal issues relating to long term leasing were created.

There is no any business in the land other than the vehicle park. Accordingly, there was no any legal bound with regard to the leasing the land on long term basis.

When leasing the lands, it should be conducted in transparent manner and follow-up actions should be taken to ensure adhere to the lease conditions.

As well, due to the changes made to the lease conditions after being leased, the opportunity available to get higher price from the leasing of land was lost by the Authority.

(f) Without obtaining the prior approval of the Treasury, one third allowance from the basic salary had been paid continuously since several years to 108 officers including all officers in the Chairman's and Director General's offices and others.

The audit and Management Committee held on 03.12.2012, had recommended to pay 1/3 of allowance to the staff of Chairman's and Director General's office as a confidential allowance. The approval of the Board of Directors had been granted on 17.04.2013 (vide Board Paper No. 107/2013 Action going to be taken to obtain the Treasury approval.

The payment of a confidential allowances should be made with the relevant approvals

A sum of Rs.12,451,408 had been paid so during the year under review. As well, the selection procedure of the officers and basis of payments had not been explained to audit.

3.5 Transactions in Contentions Nature

Audit Observation

Comment of the Management

Recommendation

The Urban Investment and Development Company, a subsidiary company of the Authority, had purchased a Toyota Land Cruiser Jeep for Rs.17,500,000 in the year 2014 and since the date of purchase, the Jeep had been used by the Chairman of the Authority. Entire maintenance cost of the vehicle for the year under review had been incurred by the subsidiary company and that expenditure had been subsequently reimbursed by the Authority.

Even though said Jeep had been purchased by a subsidiary company of the Authority, the Urban Investment and Development Company, for Rs. 17,500,000 in the year 2014, the Jeep has been used by the Chairman of the Authority. Then Chairman of the company and the Authority were the same person, the maintained cost incurred for the vehicle by the company had been reimbursed by the Authority.

When acquisition of assets to the Authority, the assets should be directly purchased complying with the rules and regulations. The responsibility for use of motor vehicles in indirect manner, should be vested to the relevant officers.

3.6 Idle or Underutilized Property, Plants and Equipment

Audit Observation	Comment of the Management	Recommendation
(a) The approval of the Cabinet of Ministers had been given to the Authority on 21 December 2016 to acquire the Millewa state belonging to the Land Reform Commission, extent of 812.63 acres (320 Hectors), for establishment of the Horana Instuntrial City. According, without being conducted a feasibility study and without considering the contribution given by the rubber manufacturing income, above land had been taken over in the years 2017 and 2018. However, planning of the industrial city, development of infrastructure facilities to the industrial city and conducting of other development functions, had not been carried out up to the date of this report. Further any action had not been taken by the Authority with regard to the rehabilitating the state employees those who lost their jobs and houses due to this development activities. Currently, rubber tapping activities have been conducted inefficient manner and the income had been significantly decrease, compared to the income earned before the acquisition.	It had been proposed to pay, 1/3 of the salary for the additional duties carried out by the officers, according to the circular instructions, Until obtain the approval for the 1/3 allowances, ½ of the allowances had been paid to the officers. Nevertheless, action has been taken to suspend that payment too from February 2020.	Acquisition of lands for the projects should be carried out based on the plans, so as to minimize the effects cause to the national economy and to the society, until make use of lands for the desired purpose. Without being allowed to interprit the circular instructions to the officers, the activities should be carried out according to the Treasury instructions.
(b) The Colombo super Shopping Complex, Colombo Gold Centre, Floating Market Complex and Pavement Park in Borella have been operated by the Authority on lease and rental basis, giving to Entrepreneurs. However, due to planning weakness and poor customer base, those shopping complexes were unsuccessful and most of shops had been closed down by end of the year under review. The Authority had not taken progressive actions to reactivate those projects and to conduct effective advertisement programmes for those shopping complexes.	Comments had not been given	An effective programme should be implemented to utilize those idle properties in efficient manner.

3.7 Procurement Management

Audit Observation	Comment of the Management	Recommendation
(a) Contrary to objectives of the Authority and without following the procurement procedures, a sum of Rs. 11.9 million had been incurred by the Authority by obtaining the services from 2 private firms for the new year festival organized by the Ministry in April 2018.	Due to the limited time period available to complete the works, it was impossible to follow the procurement procedure. Based on the approval given by the Director General, the quotations had been obtained from the prior service providers through fax and referring the web sites, by the procurement Division of the Authority.	Action should be taken by the management to carry out the procurement functions following the procurement procedure.
(b) According to the procurement plan of the Authority for the year 2018, it had been planned to conduct 147 procurement activities under the Treasury provisions, and 116 Procurements scheduled to be completed upto end of the year 2018. However, procurement activities relating to only for 39 projects, that scheduled to be completed in the year 2018 had been completed. Compared to the plans, that was as low as 33.62 per cent.	As it had been informed to provide a separate procurement plan for the Treasury provisions, a separate plan had been prepared. As well, a procurement plan for the Authority's funds had been separately prepared. Furthermore, due to unavailability of the required information on due dates, the procurement plans for the years 2017 and 2018 could not be finalized on due dates.	Action should be taken to complete the project activities as per the plans after preparing the procurement plan.
(c) After being abandoned the construction activities of the Kollonnawa Housing Complex by a foreign company, the construction works had been awarded to Sri Lanka Companies. However, the details relating to way of made the selection and obtaining of the approvals had not been furnished to audit. Further, it had not been explained to audit that whether the selection was made based on a primary feasibility study reports.	As the construction works had not been started by the IVRCL Company in the Aluth Mawatha sites, obstacle to start the works at the sites to the local companies using their technologies were not created. Hence, it was not required to obtain a feasibility study report relating to the technologies used by the IVRCL Company from the Local Companies.	According to the procurement guidelines, the projects should be implemented.
(d) Due to the delays of the contractors, in order to pay the temporally housing rents to the removed settlers in the Kollonnawa Cultural Cities Project's site, an additional sum of Rs. 35 million had been incurred.	Comment had not been given	In order to minimize the projects costs, action should be taken to complete the projects without being delayed.

3.8 Deficiencies in Contract Administration

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
<p>(a) When signing of the Memorandum of understanding with the Slave Island Rehabilitation and Mix Development Projects Developer, action had not been taken to include more favorable conditions to the Authority. It had been agreed to incur the cost of the housing construction by the Developer. As a result, the costs of water, electricity, sewage connection and construction of internal roads and derange lines had to be incurred to the Authority. An additional cost of Rs. 435,877,228 had been incurred on that regard.</p>	<p>According to the Memorandum of Understanding signed between the Authority and the Developer, the common utilities including water and electricity should be supplied by the Authority up to the projects site. Delays in clearing the site, had been caused to extend the project period as requested by the Developer. Since it had been replaced the common utilities to the another place from the project sit, the delays were occurred further.</p>	<p>In order to minimize the possible losses to the Authority, prompt actions should be taken having discussion with the Treasury and the contractors.</p>
<p>(b) The construction works of the Jaffna Rest House, extent of 3,118 square meters comprising of 32 rooms, had been commenced nearby the Lagoon and without obtaining the approval of the Department of coastal conservation. The construction works had been abandoned in the year 2016 after being constructed of gabion wall and the foundation of the building. As a result, the opportunities to use this construction cost amounting to Rs.77,488,989 for alternative work was lost by the Authority. Further, it was observed in audit that the iron bars used for the concrete beams were decaying and as a result, the expenditure incurred thereon had been become unproductive.</p>	<p>After coming in to power, the new Government in first month of 2015, investment for that project had been stopped by the new management appointed by the new Government. Up to the year 2020 the project activities had been suspended.</p> <p>The present Management had drawn their special attention to the project and the approval of the Department of Costal Conservation had been obtained. Applng the Public Private Participation Modle (PPP), action has been taken to recommence the works with public and private investments.</p>	<p>When implementing the projects, the effectiveness should be correctly identified, before making decision for implementation.</p>

4. Accountability and Good governance

4.1 unresolved Audit Paragraphs

Audit Observation	Comment of the Management	Recommendation
<p>Twenty four significant observations relating to the unauthorized land acquisitions, action taken beyond the authority levels, leasing of properties violating the stipulated procedures, recovering of lease rents, land utilization weakness, idle assets, uneconomic transactions, contract management and implementing of projects etc. had been reported in the preceding years audit reports. However, the Authority had not drawn adequate attention for those audit paragraphs. The Committee on Public Enterprises had given their directions for some observations point out to the Committee.</p>	<p>Future actions will be taken and all matters will be updated.</p>	<p>Prompt actions should be taken with regard to the matters highlighted in the unresolved audit paragraphs.</p>