Urban Development Authority - 2014

The audit of consolidated financial statements of the Urban Development Authority and its Subsidiaries for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 10 of the Urban Development Authority Act, No. 41 of 1978. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of the Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 **Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraphs 2.2 and 2.3 of this report.

2. **Financial Statements**

2.1 **Qualified Opinion- Group**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Urban Development Authority and its Subsidiaries as at 31 December 2014 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Qualified Opinion- Authority

In my opinion, except for the effects of the matters described in paragraph 2.3 of this report, the financial statements give a true and fair view of the financial position of the Urban Development Authority as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements- Group

The following observations are made.

(a) The consolidated financial statements had been prepared based on the audited financial statements of the Lanka Rest House (Pvt.) Ltd. and Urban Investment and Development Company and unaudited financial statements of the Waters Edge Ltd. and the Peliyagoda Warehouse Complex Ltd. for the year 2014 which are the Subsidiaries of the Authority. Further, hundred per cent ownership of the above subsidiaries had been vested in the Authority.

(b) The investment value of the Waters Edge Subsidiary company of the Authority had been shown in the financial statements of the Authority as Rs.10 in the previous years and it had been shown as Rs.842.5 million in the current year. Nevertheless, the revalued assets of the Subsidiary which had been vested in the Authority on a Court Order, amounting to Rs.1,791 million had not been shown in the financial statements.

(c) Although a sum of Rs.92,069,492 had been shown as the profit from the disposal of lands and buildings of the Authority during the year under review in the financial statements, it had not been shown as a reserve in the financial statements of the group.

(d) Particulars on the debtors amounting to Rs.191.47 million of the Subsidiaries as at the end of the year under review had not been shown in the financial statements and a provision for bad debt as well had not been made thereon.

(e) The key officers of the Authority had been appointed as the Chairman and the Boards of Director as specified below.

Post of the Authority	**Post held in the Subsidiary**	**Number of Subsidiaries Appointed**
Chairman	Chairman	03
Director General (Acting)	Director	02
Additional Director General	Director	02
Deputy Director General (Finance)	Director	02

2.3 Comments on Financial Statements- Authority

2.3.1 Sri Lanka Accounting Standards

The following non-compliances were observed .

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

The Impairment Profit amounting to Rs.9,867,732 arisen in the adjustment of fair value of fixed deposits that existed as at 31 December in the year under review according to the Sri Lanka Financial Reporting Standards 07 (SLFRS) had not been separately disclosed in the financial statements and it had been adjusted to the interest income of fixed deposits.

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

The following observations are made

(i) The rest house rental of Rs.796.7 million refundable to the Local Authorities during the year under review had been set off against the rest house rental of Rs.779.8 million receivable to the Authority and shown in the financial statements.

(ii) Adequate disclosures in respect of the following transactions had not been made in the financial statements.

- Receipt of advances amounting to Rs.127,147,392.
- Deferred rental income of Rs.18,575,928,400 relevant to the Authority.
- Adjustment relating to the Waters Edge Ltd. amounting to Rs.6,712,422 and correction of the land assessment value of Rs.207,573,921 shown in the statement of changes in equity.
- The provision of Rs.499,999,930 in respect of the diminition of investment value of the Peliyagoda Warehouse Development Company.
- Receipt of rental advances amounting to Rs.948,536,119 shown in the statement of comprehensive income.

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

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The following observations are made.

(i) Even though a sum of Rs.130,071,167 had been paid as Income Tax during the year under review, it had been shown as Rs.125,386,786 in the cash flow statement and as such a difference of Rs.4,684,381 was observed.

(ii) The profit from disposal of office equipment and furniture amounting to Rs.1,553,648 which had been adjusted to the profit in the statement of comprehensive income, had not been deducted from the profit before tax in the preparation of cash flow statement.

(iii) Payment of loan interest and cost of writing off of interests of the Authority during the year under review amounting to Rs.267,269,411 and Rs.272,092,480 respectively had not been separately shown under the financing activities in the cash flow statement.

(d) **Sri Lanka Accounting Standard 08**

The difference of the assessment of lands amounting to Rs.257,909,794 shown as prior year adjustments in the statement of changes in equity had not been taken into the statement of comprehensive income.

(e) **Sri Lanka Accounting Standard 12**

Although the payment of bonus amounting to Rs.19,430,337 had been deducted in the computation taxes for the year 2014/2015, the taxable income had been under calculated by Rs.14,900,398 as PAYE Tax amounting to Rs. 14,900,398 included therein had not been deducted.

(f) **Sri Lanka Accounting Standard 16**

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On the approval of the Authority, the lessees had mortgaged the most of lands given on rent by the Authority as the security to a third party and obtained financial facilities. Nevertheless, adequate disclosures in that connection had not been made in the financial statements.

(g) **Sri Lanka Accounting Standard 17**

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Adequate disclosures had not been made in the financial statements in respect of Deferred Lease Rent amounting to Rs.18.6 million included in the statement of financial position.

(h) **Sri Lanka Accounting Standard 18**

The accounting policy on the recognition of Fees for the Service Rendered was not in compliance with the provisions in Paragraphs 20 and 26 of the standard and the income amounting to Rs.92,069,492 received by the realization of the investment of properties during the year under review had been shown under the operating income instead of being shown under the other income item in the statement of comprehensive income. Further, the Nation Building Tax (NBT) collected on the monthly rental income and lease rental income amounting to Rs.13,346,773 and Rs.50,282,413 respectively had been adjusted to the income of the year under review by the Authority and as a result, the recognized income of the year had been overstated by Rs.63,629,186.

(i) **Sri Lanka Accounting Standard 19**

Adequate disclosures in respect of payment of employee benefits and the basis of computation thereof had not been made in the financial statements.

(j) **Sri Lanka Accounting Standard 20**

The following observations are made

(i) The receipt of Government grants amounting to Rs.1,001,234,894 included in the statement of financial position under equity and liabilities had not been brought to account as differed liabilities under the non-current liabilities of the statement of financial position. As a result, non-current liabilities had been under stated by that amount.

(ii) Out of the Government grant of Rs.64,750,000 received for the construction of trade stalls at Kataragama, a sum of Rs.1,295,000 relating to the year under review had not been taken into the statement of comprehensive income as the Deferred income and as such income had been under stated by that amount.

(k) **Sri Lanka Accounting Standard 40**

The accounting policy applied by the Authority for the valuation of invested property was not in compliance with the standard. Similarly, the trade stocks of housing projects costing Rs. 13 million the construction works of which had been completed and inhabited people had been shown under the non-current assets and adequate disclosure had not been made in that respect.

2.3.2 Accounting Deficiencies

The following observations are made.

(a) The following abnormal balances stated in the financial statements could not be satisfied in audit.

(i) Existence of an abnormal credit balance of Rs.10,711,099 relating to 02 projects in the Work in Progress Account and an abnormal debit balance of Rs.779,821,387 in the Refundable Rest House Rental Account.

(ii) Showing an unidentified balance of Rs.104,123,867 in the trial balance prepared as at 31 December of the year under review.

(iii) Not indicating a sum of Rs.622,457,270 payable to the Real-estate Exchange Private Company by the Authority in the financial statements of the Authority.

(iv) Not accounting 4 lands, 194.79 perches in extent and the market value of which was Rs.142,520,000 situated at Baddagana, Madiwela and Depanama belonging to the Authority, having being identified.

(v) Despite being indicated the opening balance of the Payable Advance Account relating to the Urban Housing Programmes as zero, the balance thereof according to the Ledger Account, amounted to Rs.24,851,960.

Further, it is established that there were number of differences between the closing balances of the financial statements of the previous year and the opening balances of the financial statements relating to the year under review. As such, it was not possible to satisfy on the accuracy and the reliability of each balance indicated in the financial statements of the Authority.

(b) Although, the balance of the Refundable Client Deposit Receipts Account as at 31 December of the year under review amounted to Rs.4,458,767,920, as irrelevant unidentified debit balance of Rs.1,166,567,929 had been adjusted to that account, had been under stated by that amount.

(c) The chairs, air conditioners systems and an electric lift purchased at a cost of Rs.43.9 million under the Racecourse Renovation Project had been brought to account as one asset under the Super Structure instead of being classified according to the relevant classification policy and depreciated as per the relevant depreciation rates and as such depreciation amounting to Rs.6,955,502 in respect of those assets for the year under review had been omitted from the accounts. Further, the generator purchased at a cost of Rs.10,850,000 (Exclusive of VAT) for the above project should have been identified as a fixed asset, but it had been brought to account as a development expenditure.

(d) As the interests valued at Rs.2,818,991,301 receivable relating to the Fixed Deposits had not been correctly computed, the value of the Fixed Deposits as at the end of the year under review had been over stated by Rs.553,475.

(e) Provisions for Bad Debts amounting to Rs.169,919,893 had been made as at 31 December of the year under review for the Rest house debtors totalling Rs.114,066,129 and as such provisions for Bad Debts of Rs. 55,853,764 had been made, exceeding the debtor balances.

(f) Although the Authority had approved the transfer of a sum of Rs.214,132,917 accounted as the work-in-progress during the year under review in the Journal entry , that value had not been brought to account under the invested property.

(g) While the expenditure of Rs.3,574,048 of 4 projects adjusted to the statement of comprehensive income as project operating expenditure being adjusted to the profit before tax, it had again been deducted under the qualified expenditure in the calculation of taxable income. As such, the taxable income had been under stated by that amount.

(h) Although the entire Economic Service Charge paid for the year under review had been adjusted to the Income Tax, the Economic Service Charges of Rs.4,683,844 receivable as at 31 December of the year under review had not been shown in the financial statements.

(i) The Economic Service Charge payable for the final quarter of the year under review amounting to Rs.2,301,357 had not been shown in the financial statements.

(j) A sum of Rs.14,358 million relating to 3 asset items had been shown under non-current assets instead of being shown under current assets in the statement of financial position.

(k) A debit balance valued at Rs.5,211,347 had been adjusted to the Tender Deposit Account and as such that account had been under stated by that value.

(l) A sum of Rs.538,635,413 that should not be credited to the Refundable Land Sale Advance Account shown in the financial statements had been adjusted to that account and therefore that account had been under stated by that value.

(m) A sum of Rs.8,342,800 received as the land compensation deposit during the year under review had been brought to account as work-in-progress.

2.3.3 Un-reconciled Accounts

The following observations are made.

(a) The total of 16 items shown in the financial statements was Rs.100,920 million and that total in the schedules relevant thereto was Rs.97,855 million. Accordingly a difference of Rs.3,065 million was observed.

(b) According to the financial statements of the Authority as at 31 December of the year under review, a difference of Rs.832,727 relating to current accounts of Lanka Rest House Company Ltd. and Urban Investment Development Company Ltd. was observed.

(c) According to the statement of financial position of the year under review, provisions for gratuity amounted to Rs.39,928,132 whereas it was Rs.44,956,857 according to the statement of comprehensive income and as such a difference of Rs.5,028,725 was observed.

(d) Although the Income Tax pertaining to the year under review amounted to Rs.146,053,702, it was Rs.149,275,738 according to the income tax computation schedules. Accordingly, a difference of Rs.3,222,036 was observed.

(e) Although the balance of the Pension Gratuity Provision Account as at 31 December of the year under review amounted to Rs.218,090,085 according to the Actuarial Report that balance was Rs.205,665,985.

2.3.4 Receivable and Payable Accounts

The following observations are made

(a) Out of the advances given to the employees of the Authority in 68 instances, advances amounting to Rs.5,327,356 had not been settled even as at the end of the year under review.

(b) The monthly rental debtor balance of the Authority as at 31 December of the year under review amounted to Rs.188,463,895 and a sum of Rs.85,967,943 of that was older than a year. This represented 45 per cent of the monthly rental debtor value.

(c) Action had not been taken to settle a sum of Rs.158,869,375 included in the refundable advance schedule relating to the urban housing programmes as at 01 January 1979, a sum of Rs.7,433,898 existed in the Refundable Land Advance Account as at 25 April 1986, a sum of Rs.94,095,613 existed in the Refundable Client Deposit Account as at 31 December 1989 and refundable rental advance of Rs.767,213 brought to account as at 31 December 1990, even by the end of the year under review.

(d) The unsettled advance balance given by the Authority to the contractors for various projects as at 31 December of the year under review amounted to Rs.7.9 billion, of which Rs.0.78 billion had been older than 2 years and Rs.2 billion had been between 01 to 02 years.

(e) The fine receivable from the rental debtors as at 31 December of the year under review amounted to Rs.101,789,415 of which fines exceeded one year was Rs.81,205,721. Further, the Authority had failed to recover 80 per cent of the total fines receivable.

(f) The Authority had not taken an adequate step to recover the dormant employee loan balances of Rs.1,213,322 that existed by the end of the year under review.

(g) Rental of Rs.53,697,392 receivable from 06 projects given for business transactions during the year under review after renovating by the Project Management Division of the Authority had not been recovered even by the end of the year under review.

(h) Action had not been taken to settle the tax totalling Rs.66,384,394 recovered by the Authority.

(i) The Nation Building Tax of Rs.142,412,400 recovered by the Authority from the Colombo (Private) Ltd. on 2014 July 16 had been retained in the Authority without being remitted to the Department of Inland Revenue.

2.3.5 Lack of Evidence for Audit

Evidence indicated against the following transactions totalling Rs.15,194.84 million relevant to 06 items of accounts had not been made available to audit.

Item	Value (Rs.Million)	Evidence not made available
(a) Property, Plant and Equipment	1,950.4	Schedules of Assets
(b) Revenue Reserve	55.0	Detailed Schedules
(c) Land Compensation Payable	8,277.0	Balance confirmations
(d) Adjustment of Employee Loan to the present value	61.9	Detailed schedules and particulars on computation
(e) Opening balance of the Refundable Rest House Rental Account	457.9	Detailed Schedules
(f) Various Accounts (Debit balances)	4,392.64	Particulars of accounts relating to the Code Nos.
	15,194.84	

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

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

Reference to Laws, Rules, Regulations etc.	Non- compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
Regulation 371	Even though the ad-hoc sub-imprests should be settled immediately after completion of the relevant purpose, a period of over 06 months had been taken for the settlement of advances of Rs.3,155,399 granted in 141 instances
(b) Planning Circular No.8 of 30 September 1987 of the Urban Development Authority and Planning Circular No.15 of 18 November 1993	The Local Authorities had not opened bank accounts relevant to the deposit of service charges of the Authority.
(c) Payments of Gratuities Act, No.12 of 1983, Employees Provident Fund Act No.15 of 1958 and Employees Trust Fund Act, No.45 of 1980.	Although in the computation contributions to employees provident fund, employees trust fund and gratuity, the Cost of Living Allowance should be taken into consideration in accordance with the provisions in the relevant Acts, it had not been so done. As such the arrears and the surcharges payable in respect of those funds for the period from the year 2006 up to 06 October 2012 amounted to Rs.99,488,147 and Rs.47,259,253.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(d) Schedule V of the Extraordinary Gazette No.1597/8 of 17 April 2009 of the Democratic Socialist Republic of Sri Lanka.	
(i) Paragraph 6 II	The Authority had not taken action to recover a sum of Rs.947,000 recoverable in respect of construction of one building without having a formal development permit for commercial purposes.
(ii) Paragraph 7	Although the Authority had identified 1868 unauthorized constructions and unauthorized changes, action had not been taken either to regularize them by charging a fee for a covering approval and a fee for changing the utilization, if they can be regularized or to re-possess the lands to the Authority.
(e) Management Services Circulars	
(i) Circular No.39 dated 26 May 2009	Without the approval of the Salaries and Cadre Commission and the Department of Management Services, a monthly professional allowance of Rs.15,000 had been paid to the Engineers, Architects, Lawyers, Accountants, Town Planning Officers and Quantity Surveyors of the Urban Development Authority with effect from 01 July 2014 and a sum of Rs.5,925,000 had been spent in that respect during the year under review. The Chairman of the Authority had informed me on 01 February 2016 that this allowance was paid on the verbal approval of the former Defense Secretary and the approval of the Board of Management.
(ii) Circular No.5/2014 dated 21 November 2014.	In the payment of bonus amounting to Rs.19.4 million to the staff of the Authority during the year under review, action had been taken contrary to the following criteria referred to in the said circular. • Submission of annual accounts to the Auditor General on or before the due date. • Obtaining the approval of the Board of Directors or the Board of Control before the payment of bonus.
(f) Public Enterprises Circular No.PED/12 dated 02 June 2003.	
(i) 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.
(ii) Section 9.2 (d)	The approval of the Department of Public Enterprises had not been obtain for the composition of the cadre of the Authority.
(iii) Section 9.14	The Authority should prepare a procedure relating to the human resource management and get it approved otherwise, provisions in the Establishments Code relating to the human resource management should be adopted. Nevertheless, action had not been taken accordingly.
(g) Management Services Circular No.30 dated 22 September 2006 and Public Administration Circular No.06/2006	A performance based promotion scheme had not been introduced for the Authority and after placing posts in a new salary scale, approval of the National Salaries and Cadre Commission had not been taken to implement it. Nevertheless, the Authority had taken action to grant promotions subject to a prior approval utilizing a proposed cadre composition.
(h) Government Procurement Guidelines	
(i) Section 1.2.1 (c)	A private institution had been selected for a sum of Rs. 5.7 million for consultancy services without calling for competitive bids in the process of installing computer system expected to be introduced by the Authority at a cost of Rs. 400 million. A feasibility study had not been conducted on the new computer system.
(ii) Section 2.5.1	The Authority had procured goods and services valued at Rs. 1,460,484,030 in the year under review without the approval of the Procurement Committee. The Chairman of the Authority had informed me that payments had to be made to the suppliers for the orders issued without following the procurement process in accordance with the verbal directives of the Secretary to the Ministry and the written directives of the then Chairman.
(i) Section 3.4	Although the Shopping Method should be followed for the procurements less than Rs. 5 million, the Shopping Method had been followed in purchasing capital goods for the renovation of Race Course Ground on Reed Avenue in Colombo 07 in excess of Rs. 05 million totalling Rs. 40.64 million and capital goods of other projects totalling Rs. 72.36 million.

(j) Public Administration Circular, No.14/2008 dated 26 June 2008	Drivers had been provided for 17 officers who had drawn allowances by using private vehicles as their official vehicles, and a sum of Rs. 5,308,160 had been incurred by the Authority as the drivers salaries and overtime allowances.
(k) Provisions of the letter No. MF/TR/1/2003 of the Secretary to the Ministry of Finance, dated 28 March 2003.	Although the maximum monthly rental payable for a vehicle obtained on lease amounted to Rs. 40,000, the Authority had paid at Rs. 57,142, and a sum of Rs.1,645,632 had been overpaid by exceeding the said limit in connection with 8 vehicles in the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the profits before tax of the Group and the Authority for the year ended 31 December 2014 amounted to Rs.1,146 million and Rs.749 million respectively as compared with the corresponding profits before tax amounting to Rs.1,121 million and Rs.943 million respectively in the preceding year, thus indicating an improvement of Rs.25 million and a deterioration of Rs.194 million in the financial results as compared with the preceding year of the Group and the Authority respectively. The deterioration of the financial result had mainly been attributed by the decrease in the interest income of the Authority as compared with the preceding year.

3.2 Analytical Financial Review

The following observations are made.

(a.) The current ratio of the Authority was 0.64:1 in the year under review ,as compared with 2.18:1 in the preceding year. The deterioration of the current ratio had been caused due to reasons such as obtaining a short-term bank loan amounting to Rs. 3.66 billion in the year under review , and taking action to redeem debentures valued at Rs. 10.26 billion that had been shown as non- current liabilities in the preceding year thereby showing as current liabilities, in the year under review.

(b.) The interest income had decreased from Rs. 1,279 million to Rs. 395 million representing 69 per cent in the year under review.

(c.) As compared with the preceding year, transport expenses and assessment taxes had increased by 67 per cent and 1618 per cent respectively in the year under review.

(d.) Other expenses had increased by 1267 per cent in the year under review as compared with the preceding year. This had directly affected to increase the project operations expenses by a sum of Rs. 449 million.

(e.) As a sum of Rs. 3.64 billion had been withdrawn in the year under review from the fixed deposits valued at Rs. 11.28 billion as at the end of the preceding year for the construction of urban regenerative houses, the balance available as at the end of the year under review amounted to Rs. 7.64 billion.

4. Operating Review

4.1 Performance

The following observations are made in connection with the performance of the Authority.

(a.) Seventy eight projects with an aggregate value of Rs. 14,088 million that had been included in the Action Plan for the year under review, had not been implemented during the year under review, whereas a sum of Rs. 2,981 million had been spent on 211 projects, not included in the Action Plan.

(b.) No progress whatsoever had been observed in connection with work in progress valued at Rs. 79,783,488 relating to 48 projects at the commencement of the year under review.

(c.) Although 243 urban development zones had been identified in accordance with Section 3 of the Urban Development Act, No. 41 of 1978 by the end of the year under review, development plans had been prepared only for 42 zones.

(d.) The expenditure incurred on the urban development, Which is the main objective of the Authority, in the year under review amounted to Rs. 665 million representing only 7 per cent of the total expenditure incurred.

4.2 Management Inefficiencies

The following observations are made.

(a.) It had been agreed to grant the land located at Malambe, 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 Nawinna, to the company owned the above land. However, it had been agreed to pay a sum of Rs. 55 million to the owner of the land that had been set off without obtaining a valuation from the chief valuer for the land that had been taken over.

(b.) The land owned by the Authority and located on Nippon Road, Kotte, had been encroached by the nearby dwellers for their access and gardening. However, the Authority had not taken any action in that connection.

(c.) Houses from the *Mihindusenpura* Housing Scheme had been provided for the 205 families who occupied official quarters of the Sri Lanka Railway. As the houses had been vested in them together with the ownership, the possibility of taking over those houses when emptied due to retirement or other reasons, and granting to the officers employed in the Department of Railway, had been deprived. The rental income that would have been earned in renting by the Authority in the future had been deprived.

(d.) Although 153 cases of encroachment had been revealed from the land with 7.35 acres vested in the Authority following an order of the Supreme Court and located in *Battaramulla, Kalapaluwawa* where the Water's Edge Company is established, the Authority had failed to take appropriate measures for the removal of encroachers.

(e.) Two bids amounting to Rs. 12,200,240, and Rs. 3,800,000 had been presented to the Authority by 2 contractors for the demolition and removal of the old building at the housing complex in *Mayura Place, Wellawatta* and sale of debris respectively. However, the Authority had not assigned the task to the contractors; instead, the building had been demolished by incurring funds of the Authority amounting to Rs. 6,296,440, and the debris had been sold for Rs. 750,000, thus causing a total loss of Rs. 17,746,680 to the Authority.

(f.) A sum of Rs. 94,237,411 remained due by the end of the year under review due to inefficiencies of the methodology to recover the fees of the houses vested in the householders by the Authority under the Urban Regenerative Project.

(g.) As boundaries had not been marked , security fence lines had not been erected properly around the lands, 194.7 perches in extent valued at Rs. 143 million in areas such as Beddagana, Araliya Uyana, and Madiwela, external parties had encroached those lands, by constructing permanent buildings, and cultivating perennial crops.

(h.) Although approval had been granted according to the decision No. 229/2014 dated 26 August 2014 of the Board of Directors to vest the ownership of the vehicles of the subsidiary company – *Peliyagoda* Warehouse, in the Authority, action had not been taken even by the end of the year under review to take over the ownership of those vehicles.

(i.) Although fines charged and the balance money remained after issuing the monthly season tickets for the busses deployed for transporting officers of the Authority, totalled Rs.2,111,399, action had not been taken to deduct the balance money in issuing new season tickets.

(j.) The land owned by the Authority valued at Rs. 1,190,000 and located at No. 41/4, 4th Lane, *Bodhiraja Mawatha, Jayanthipura, Battaramulla*, had been unlawfully used by external persons for storing building materials.

(k.) Although 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 recover the land.

(l.) Debenture Issues

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 program on the construction of 66,000 houses for the shanty dwellers in the city of Colombo – a project which had not complied with the objectives of the Urban Development Authority Act.

(i) The following activities which should have been carried out in terms of the Cabinet Memorandum No. M/D/UDA/CP/2010(1) of 05 August 2010 relating to the issue of debentures, had not been adequately performed even after 5 years of issuing debentures.

- Taking action to generate an income of Rs. 25 billion through the development of 142 acres of land existed in the city of Colombo thereby leasing out 78 acres of those lands at Rs. 2 million per perch , and utilizing a sum of Rs. 14 billion there from on the urban development of the city of Colombo.

- Calling for leasing proposals by the Authority on those lands , or preparation of a business plan in that connection.

- Renovation of the City of Colombo, and commercially development of lands economically importance in Colombo.

- Improvement of these projects by the Authority within a period of 3 years up to a level of generation income.

(ii) Although the Authority had scheduled to redeem debentures valued at Rs.10 billion in the year 2015, it was observed that the Authority would face a severe financial crisis in redeeming debentures due to failure in accumulating adequate financial assets.

4.3 Operating Inefficiencies

The following observations are made.

(a.) The total amount receivable to the Authority from the stalls at the shopping complex – Colombo Gold Centre as at 31 December 2014 amounted to Rs.68,174,622. Of that, amount, Management fees and key money receivable from 52 and 58 stalls amounted to Rs. 64,241,177. Thus, leasing out a large number of stalls even without obtaining key money was questionable in audit. Furthermore, only 64 out of the 84 stalls had paid monthly rentals by the end of the year under review, and that had further decreased to 10 by June 2015. Accordingly, the percentage of the receipt of rentals had sharply decreased from 76 per cent to 12 per cent within a period of 06 months.

(b.) In terms of the letter of the Secretary to the Treasury dated 11 November 2011, unnumbered addressed to 13 District Secretariats in connection with the acquisition of under operated enterprises and underutilized assets to the Government , the Authority had not taken steps to make use of 14.5 acres of lands that had been vested in the Authority by the Divisional Secretariats of Colombo and Badulla districts, in development activities.

(c.) Bad debts amounting to Rs. 13.8 million had in appropriately been provided in the year 2012 for work in progress valued at Rs. 10.6 billion and brought forward over several years. Action had not been taken to rectify the accounts up to the year under review.

4.4 Transactions of Contentious Nature

The following observations are made.

(a.) Contrary to its objectives, the Authority had given a sum of Rs. 20 million in the year under review on the conservation of *Ehelepola Walawwa*, program.

(b.) The Urban Regenerative Project had constructed the housing complex – *Laksanda Sevena* consisting of 216 houses under the project for providing the dwellers in urban areas living under substandard facilities with flats. The cost incurred on the construction of a house amounted to Rs. 4 million. However, 158 units of such houses had been granted to the Colombo Municipal Council at Rs. 1.5 million per house incurring a financial loss of Rs. 395 million to the Authority. Furthermore, the Authority had not taken adequate measures to recover a sum of Rs. 137 million remained receivable to the Authority in that connection.

4.5 Non-economic Transactions

The following observations are made.

(a.) A sum of Rs. 179,118,482 had been spent by the Authority in the year under review on inaugural ceremonies of the projects/ making of plaques / printing / publicity, and food and beverages.

(b.) Although a sum of Rs. 92,000,000 had been invested by the Authority for the purchase of shares of a private company no return whatsoever had been received in that connection from 2005 up to the end of the year 2013. In terms of the Cabinet decision reached subsequently, it had been decided that the amount invested by the Authority should be taken back by converting the said company into a public company. However, the Authority had not acted accordingly.

(c.) The Authority had been issued 18 per cent preference shares by a company in 2005 valued at Rs. 28,950,000 in lieu of lands vested in the said company by the Authority. No any return whatsoever had been received in connection with the investment up to the end of the year under review.

(d.) No dividend whatsoever had been received on investments amounting to Rs. 500,000, and Rs. 36,309,841 made by the Authority in Housing Development Finance Corporation, and Colombo Land and Development Company respectively.

4.6 Identified Losses

Due to failure in obtaining a favourable verdict as the Authority had not made sufficient information available to the Court, fines and rentals of Rs. 64,309,764 recoverable to the Authority from Rest Houses at *Bandarawela* , and *Peradeniya*, had been written off from the books in the year under review.

4.7 Contract Administration

The following observations are made.

(a.) Urban Regenerative Project

(i) Although the tenants had occupied 10 housing schemes of which construction had been completed, ownership of lands, 01 Acre and 02 Roods in extent where those housing schemes had been constructed, had not been taken over, whereas action had not been taken to take over the ownership of lands where construction of houses are being in progress in connection with 13 projects valued at Rs. 30.47 billion.

(ii) In terms of Section 1.2 (c) of the Government Procurement Guidelines, competitive bids should be called for a manner that the parties interested in construction are provided with equal and best possible opportunities. However, 06 contracts the total value of which amounted to Rs. 15.14 billion had been awarded without calling for competitive bids in such a manner , and without the approval of the Board of Directors in connection with 27 constructions valued at Rs. 61.9 billion.

(iii) In terms of Section 8.9.3 of the Government Procurement Guidelines, agreements had not been signed even by the end of the year under review in connection with 12 contracts valued at Rs. 30.82 billion that had been carried out under phase II of the project. Owing to this situation, operation and monitoring of the said contracts efficiently were revealed to be questionable.

(iv) The Construction companies, to which the contracts for the constructing of housing schemes in *Kolonnawa* and *Maligawatta* consisting of 1474 units of houses valued at Rs. 4.13 billion, and the housing scheme in *AluthMawatha* consisting of 1248 units of houses, had been awarded under phase I of the project, in the year 2011, had abandoned the projects by the end of the year under review.

(v) 4676 householders had been inhabited in 10 housing projects without entering into formal agreements. As the Authority had not followed a specific methodology to recover key money and monthly rentals from the inhabitants, the total amount recoverable from 18 November 2013 to August 2015 amounted to Rs.33 million approximately.

(vi) As a specific methodology had not been applied in granting houses to the homeless people selected by the Authority under the said project, 177 instances where 2 houses had been given to a same person, and 12 instances where 3 houses had been given to one person were revealed. The number of housing units so given was 201, and the cost incurred thereon amounted to Rs. 1,342.68 million. The Chairman of the Authority had informed me on 01 February 2016, that Considering the public protest as the area of a house being 400 square feet 2 houses had been given in place of a better house with an area exceeding 700 square feet, whereas, 3 houses had been given in place of a best house with an area exceeding 1100 square feet.

(b.) In order to put up a fence around the land namely, "*Electro Plastic*" with a wire mesh at a cost of Rs. 1,745,000 that had been acquired by the Authority in *Rajagiriya*, a metal sheet of size 6" 6" should have been used at the bottom as per the engineering plan when the GI pipes used to link the mesh were fixed to the ground. However, it had not been so done, and some of the GI pipes used in fixing the wire mesh, had been linked with each other.

(c.) The Authority had selected tenants through interviews by issuing 855 applications at Rs. 2,500 each in the year 2013 in connection with the project to construct flats and grant them as a freehold property to the Government servants. Although the project had been commenced on 30 October 2014, no any construction whatsoever had been carried out even by the end of the year under review.

4.8 Personnel Administration

Thirty one officers had been recruited for 18 posts that had not been in the approved cadre of the Authority. The existence of 21 vacancies over the past several years relating to the Senior, Executive and management levels of the Authority had directly affected the performance of the Authority.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

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Even though every Public Corporation should present the financial statements and the draft annual report to the Auditor General within 60 days after the closure of that year or prior to 28 February, in terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, the financial statements for the year 2014 had been presented to audit only on 08 March 2016.

5.2 Corporate Plan

The following deficiencies were observed in the Corporate Plan prepared by the Authority for the period 2013-2017 in accordance with the provisions of Section 5.1.2 of the Public Enterprises Circular, No. PED/12 of 02 June 2003.

(a.) The Corporate Plan for the year 2014 had not been updated.

(b.) Due to non-availability of targeted data, comparison with the actuals was not possible.

(c.) Responsibility had not been assigned with the managers of the Authority to be in line with targeted strategies.

5.3 Action Plan

The following observations are made.

(a.) Strategies to be carried out in the year under review included in the Corporate Plan for 2013-2017, had not been included in the Action Plan for the year under review.

(b.) The Action Plan had not been updated and reviewed in a timely manner.

(c.) As the actual data relating to targeted activities of each division had not been presented by the end of the year under review, it was not possible to assess the performance of those divisions.

5.4 Internal Audit

The following observations are made.

(a.) Even though the Internal Audit Division had observed that certain existing internal control systems appears to be weak, it was observed that there was no an approach within the Entity to strengthen such control systems.

(b.) Action had not been taken to strengthen the staff of the Internal Audit Division in line with widening of the functions of the Authority. Although the approved number of officers for the Internal Audit Division was 14, the number of officers employed by the end of the year under review was 13.

(c.) The functions included in the annual audit program had not paid an adequate attention on the performance audit of the Authority.

5.5 Budgetary Control

Significant variances were observed in comparing the estimated income of the rent, sale of fixed assets, service charges, interest, dividends and sundry income etc. with the actual income, thus indicating that the budget had not been made use of as an effective instrument of financial control.

5.6 Tabling of Annual Reports

Even though the Authority should table its Annual Report in Parliament within 150 days after the closure of the year of account in terms of Section 6.5.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Annual Reports after the year 2011 had not been tabled in Parliament.

5.7 Unresolved Audit Paragraphs

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

(a.) Non utilization of the alternative trade centre constructed for road hawkers at a cost of Rs.16 million at Saunders Place in Pettah in the year 2002.

(b.) The approval of the General Treasury had not been obtained for the payment of 1/3 allowance to the officers attached to the offices of the Chairman, Director General and the Additional Director General.

(c.) Action had not been taken to recover the outstanding usage fees of Rs. 92 million related to New Town Plan of Dambulla.

(d.) The then assessed value of Rs. 361,483,000 of the Water's Edge Hotel vested in the Authority in the year 2008 on a Court Decision, had not been paid to the company which was the owner of the Hotel.

(e.) The Cabinet of Ministers had decided on 29 December 2010 to freeze the recovery of charges for Development Permits and a sum of Rs.207,331,767 recovered by the Authority for the previous period had been retained within the Urban Development Authority without being remitted to the Urban Settlement Development Authority (USDA) in terms of section 16(1) e of part II of Urban Settlement Development Authority Act, No. 36 of 2008.

5.8 Performing the Environmental and Social Responsibilities

The following observations are made.

(a.) The Authority, being an institution responsible for the avoidance of unauthorized constructions, had not performed its duty optimally.

(b.) The Authority had faced with questioning of Health Services Sectors on the spread of Dengue disease due to failure in maintaining and proper cleaning of Head Office premises of the Authority.

(c.) Even though 4,937 houses from 09 projects of housing schemes constructed under the Urban Regenerative Project, had been vested in the tenants, the institutions responsible had not been assigned to establish management corporations consisting of tenants in order to carry out maintenance and management of those houses.

6. Systems and Controls

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

(a.) Accounting
(b.) Operation of the Computerized Accounting System
(c.) Control of Debtors / Creditors
(d.) Control of Advances
(e.) Budgetary Control
(f.) Assets Management
(g.) Procurement Process
(h.) Human Resources Management
(i.) Management of Taxes