

Urban Development Authority and its Subsidiaries - 2013

The audit of consolidated financial statements of the Urban Development Authority and its Subsidiaries for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 judgment, 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 paragraphs 2.2 and 2.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the Urban Development Authority and its Subsidiaries as at 31 December 2013 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 **Comments on Group Financial Statements**

The following observations are made.

- (a) The consolidated financial statements had been prepared based on the audited financial statements of the Subsidiaries of the Authority such as Lanka Rest House (Pvt.) Ltd., Waters Edge Ltd. and Urban Investment and Development Company and unaudited financial statements for the year 2013 of the Peliyagoda Warehouse Complex Ltd.
- (b) The investment value of the Waters Edge Ltd., a Subsidiary of the Authority had been shown in the financial statements of the Authority as Rs.10 and the revalued assets of the Subsidiary which had been vested with the Authority on a Court Order, amounting to Rs.1,791 million and a sum of Rs.403.48 million as well payable to the previous owners of the Subsidiary as at 31 December 2013 had been shown separately. The audit opinion in respect of the financial statements of the Subsidiary for the year ended 31 December 2013 had been qualified due to non-vesting the ownership of the assets with the Subsidiary and non-payment of any amount to the Authority on these assets.

2.3 **Comments on Financial Statements of the Authority**

2.3.1 **Issue of Debenture**

Debentures valued at Rs.10 billion to be redeemable in 5 years had been issued by the Urban Development Authority in October 2010 for the purpose of raising funds for the National Program to construct 65,000 permanent residences for the people living in shanties in Colombo City and the General Treasury had agreed to reimburse the interest on debenture for the period of first 3 years. Even though the Authority should redeem the debenture in the year 2015, action had not been taken to establish a Special Fund for that purpose.

2.3.2 Sri Lanka Accounting Standards

The following observations were made in this connection.

(a) Sri Lanka Accounting Standard No. 01

- (i) Even though the Board of Management of the Authority had decided in the year under review to delegate the power to a private company for management of nine rest houses maintained by the Authority, no disclosure thereon had been made in the financial statements.
- (ii) The realized income on invested property had been brought to account under the income instead of being accounted under the other income.
- (iii) Adequate disclosures relating to the value of Rs. 172,958,686 shown as receipt of Key Money in the statement of financial position had not been indicated under the notes.

(b) Sri Lanka Accounting Standard No. 07

- (i) The cost of interest paid and the interest written off relating to the Group and the Authority for the year under review had been Rs.260,269,411 and Rs.268,377,045 respectively and those values had not been disclosed separately under the financial activities in the cash flow statement.
- (ii) Even though no debenture had been issued during the year under review, an amount of Rs.8,107,634 had been entered as an increase of debenture under the investment activities in the cash flow statement.

(c) Sri Lanka Accounting Standard No. 08

Adequate details in respect of adjustments amounting to Rs.18,090,448 mentioned as the prior year adjustments in the statement of changes in equity had not been disclosed in the financial statements.

(d) Sri Lanka Accounting Standard No. 16

- (i) According to the Standard, the fully depreciated assets of the Authority which are still used for the activities of the Authority should be revalued or reassessed the useful life time of such assets and readjusted the cost and accumulated depreciation of these assets. However, action had not been so taken in connection with 72 motor vehicles costing Rs.90,369,030 which were fully depreciated and utilized by the Authority even by 31 December of the year under review.
- (ii) Provisions for depreciation for the buildings costing Rs.2,157,240 sold in the year under review had not been made by the Authority.

(e) **Sri Lanka Accounting Standard No. 17**

An adequate disclosure had not been made in respect of Deferred Lease Rent amounting to Rs.16,127,159,403 included in the statement of financial position.

(f) **Sri Lanka Accounting Standard No. 19**

Adequate disclosures in respect of payment of employee benefits had not been made in the financial statements. Further, the basis of the computation of the Employee Benefits as well had not been disclosed in the financial statements.

(g) **Sri Lanka Accounting Standard No. 20**

(i) The matters to be disclosed in terms of the Standard with regard to the Government grants received to the Authority had not been adequately disclosed.

(ii) The Government grant receipts for the capital expenditure included in the statement of changes in equity had not been brought to account as differed income under the non-current liabilities of the statement of financial position. Further, out of the grant amounting to Rs.64,750,000 received for construction in trade stalls at Katharagama, the differed income for the year under review had not been taken into the statement of comprehensive income.

(h) **Sri Lanka Accounting Standard No. 26**

Even though a retirement benefit plan should be prepared by the Authority in accordance with the Standard, action had not been so taken. As such, provisions for retirement gratuity had not been made.

(i) **Sri Lanka Accounting Standard No. 32**

The Authority had set off the financial liabilities against the financial assets contrary to the Standard.

(j) **Sri Lanka Accounting Standard No. 37**

Even though the compensation payable for the lands acquired by the Authority had been computed and disclosed thereon, provisions for compensation which should be settled at the end of the year had not been made in the financial statements.

(k) **Sri Lanka Accounting Standard No. 40**

(i) Even though the value of Housing Projects costing Rs. 874,859,548 of which the construction works had been completed and people settled had been shown as a trade stock under the non-current assets of the financial statements, an adequate disclosure in respect of those assets had not been made.

- (ii) Further, an adequate disclosure relating to the value of the invested property shown in the financial statement had not been made.

2.3.3 Accounting Deficiencies

The following observations are made.

- (a) The rent income for the year under review for the properties granted on rental basis to the external parties by the Authority had been overstated by Rs. 3,973,372 in the accounts.
- (b) A sum of Rs. 15,456,022 not relating to the Pay As You Earn Tax out of the bonus allowances paid also had been included by the Authority in the computation of income tax.
- (c) Even though the Authority had not acquired any asset whatsoever out of the expenditure amounting to Rs.70,765,545 incurred for 7 Projects in progress, it had been brought to account as a capital expenditure. The value of Rs.282,750 shown under the Small Town Development Project at Haputhale had not been brought to account accurately under that Project.

2.3.4 Contingent Liabilities

It was observed in audit that there is a risk of contingent liabilities likely to be arisen in future due to computation of the contributions of the Employees' Provident Fund and Employees' Trust Fund without considering certain allowances applicable in terms of provisions of the relevant Acts.

2.3.5 Un-reconciled Control Accounts

The following observations are made.

- (a) According to the financial statements, the compensation payable for lands acquired by the Authority had been Rs. 861,722,561. However, according to the schedule for compensation payable, it was Rs. 808,485,515. As such, it was observed that a sum of Rs. 53,237,046 had been overstated in the financial statements.
- (b) Even though the provisions for bad debts amounting to Rs. 460,426,079 had been made in the financial statements, this balance had been considered as Rs. 278,287,974 in computation of income tax. As such, the loss on tax which can be adjusted in computation of income tax had increased by Rs. 182,138,105.

2.3.6 Unexplained Differences

According to the Current Account of the Schedule, received from the Lanka Rest House Ltd, a Subsidiary belonging to the Authority, it had been stated that a sum of Rs. 74,709,332 to be paid to the Authority. Nevertheless, according to the financial statements of the Authority, a sum of Rs. 73,849,486 had been shown as the amount receivable from that company. As such, a difference of Rs. 859,846 was observed between these accounts and the reasons for the difference had not been explained to audit.

2.3.7 Lack of Evidence for Audit

Even though a sum of Rs. 13,856,162 had been deducted for doubtful debts from the value of the capital work-in-progress indicated for many years, the requirement for such provisions had not been explained to audit.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Even though the lease rent for a land located in Colombo 07 and leased out for a period of 99 years to a Government Board, should be revised according to the valuation of the Chief Valuer once in every 05 years in terms of the agreement, that activity had not been carried out in an updated manner. Further, a sum of Rs. 5,250,000 receivable to the Authority as a lease rent of the land for the period of 21 July 1994 to 20 July 2009 had not been recovered.
- (b) Charges amounting to Rs. 25,000,000 payable in respect of debentures issued in the year 2010 had not been settled even after a lapse of nearly five years since the issue of debentures.
- (c) The compensation on lands acquired and interest payable thereon as at 31 December 2013 amounted to Rs.808,485,520 and the balances amounting to Rs.143,468,958 which were remained unsettled within a period from 6 – 10 years and the balances amounting to Rs.665,016,562 which were remained unsettled for over a period of 10 years had also been included therein.
- (d) Action had not been taken even up to 31 December 2013 to settle the advances aggregating Rs.25,486,892 granted in 48 instances from the year 2011 to August 2013 for urban development activities in Jaffna under the Small and Medium Scale Urban Development Project.

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

The following instances of non- compliance were observed.

| Reference to Laws, Rules, Regulations etc. | Non- compliance |
|---|------------------------|
|---|------------------------|

(a) Section 28(b) of the Urban Development Act, No.04 of 1982 and Section 3 of the Government Lands Act, No.07 of 1971 (Recovery of Possession) amended by the Act, No.58 of 1981

No legal action in terms of provisions in the Act had been taken against 544 persons identified as unauthorized residents settled since the year 1994 in Divisional Secretariat Divisions of Maharagama, Kaduwela, Sri Jayawardanapura Kotte and Colombo.

(b) Urban Development Authority
(Amendment) Act, No. 04 of 1982

Section 8(a) to (h)

The Authority had not approved any development plans whatsoever for any area to be developed during the years 2011 and 2012 and published in the Gazette Notification and one development plan for the year 2013 had been published by a Gazette Notification. As such, it was observed that adequate attention had not been paid thereon.

(c) The Letter of the Secretary to the President No. PCMD/PR/2013 of 05 June 2013, paragraph 06 of the Public Finance Circular No. 438 of 13 November 2009 and the Public Finance Department Circular No.353 of 30 September 1997

Seventy eight motor vehicles which had not run for a long period had been parked in the premises of Sethsiripaya Phase I and Phase II without taking proper steps for disposal of them. The process for disposal of goods relating to the disposal of unusable motor vehicles, machinery and equipment, had not been reviewed quarterly and a prompt programme had not been prepared.

(d) Volume II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka

A preliminary investigation had been conducted against two female officers of the Urban Development Authority and the disciplinary orders had been issued based on the matters of that preliminary investigation considering that an offence had been committed as set out under the First Schedule of the Volume II of the Establishments Code without carrying out a proper inquiry.

(e) Public Enterprises Circular No PED/12 of 02 June 2003
(i) Section 4.2.6

The quarterly performance reports of the Authority had not been forwarded to the Department of Public Enterprises within 30 days after end of the respective quarter.

(ii) Section 8.3.8

One thousand and one hundred twenty eight gift parcels valued at Rs. 5,551,946 had been given in the year under review to the Army Officers who assist the activities of the Urban Development Authority without a prior approval of the Cabinet of Ministers. The Chairman had stated that these gift parcels had been given to the Army Officers who made their labour contribution for development projects implemented by the Authority on the instructions given by the Secretary to the Ministry.

- (f) Decision of the Board of Management No. 06/2010 of 16 July 2010
- Even though the Planning Sub-committee of the Urban Development Authority should consist of 07 persons representing different Divisions of the Authority, in certain instances, the decisions had been taken by the Committees consisted only by the officers of the Enforcement Division of the Authority.

2.6 Transactions not confirmed by Adequate Authority

In terms of paragraph 23.5 of the Urban Development Authority (Amendment) Act, No. 4 of 1982, the Authority may delegate to any officer of a Local Authority, in consultation with that Local Authority, any of its powers, duties and functions relating to planning within any area declared to be a development area and such officer shall exercise, perform or discharge any such power, duty or function so delegated, under the direction, supervision and control of the Authority. However, at the audit test check carried out in this connection, it was revealed that the Chairman of the Urban Council, Wattala, Mabola had approved the applications for building planning, applications for allotment of lands and applications for certificates of conformity etc. received to the Urban Council, without submitting them to the Planning Committee of the Urban Council contrary to this provision.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating results before taxes of the Group and the Authority for the year ended in 31 December 2013 had been surpluses of Rs.1,119,854,354 and Rs.942,940,218 respectively as compared with the corresponding surpluses of Rs.686,176,790 and Rs.444,910,230 respectively in the preceding year, thus indicating improvements of Rs.433,677,564 and Rs.498,029,988 respectively in the financial results as compared with the preceding year of the Group and the Authority as well. The increase in the rental income and interest income by Rs.873,154,815 and Rs.761,116,300 respectively as compared with the preceding year had mainly attributed to the improvement in the financial result of the Group. The increase in the rental income and interest income by Rs.357,156,242 and Rs.748,750,594 respectively as compared with the preceding year had mainly attributed to the improvement in the financial result of the Authority.

3.2 Analytical Financial Review

The current ratio and the quick assets ratio of the Authority in the year under review was 2.18:1 and loan capital ratio was 5.75:1 whereas the current ratio and the quick assets ratio in the preceding year was 3.04:1 and the loan capital ratio was 6.01:1. Similarly, the return on equity was 0.01:1 and the return on loan capital was 0.05:1 in the year under review. As such, it was observed that the loan capital ratio of the Authority had significantly increased.

3.3 **Legal Action Instituted Against the Authority/ by the Authority**

Four instances where the external institutions had taken legal procedures against the Authority and 237 instances where the Authority had taken legal procedures against the external institutions were observed due to various reasons in the year under review.

4. **Operating Review**

4.1 **Performance**

The following observations are made.

- (a) Action had been taken at the final stage of the Project to identify the sources from which Funds are provided for Projects implemented by the Authority without identifying them properly at the initial stage of the Project. As such, the sources of Funds provided for the Projects represented the value of work-in-progress amounting to Rs.13,154,539,446 as at 31 December 2013 could not be identified as the General Treasury, client or self- financing basis etc. in audit.
- (b) According to the Plans of the Authority, it was planned to construct 20,500 houses by the end of the year 2013 under the first Phase of the Project to provide 65,000 houses with facilities for the settlement of people living in houses with less facilities located in Colombo and suburbs. Further, it had been planned at the first Phase to free a land with an extent of approximately 150 acres by removing the settlements with such less facility and earn an income of approximately Rs.25 billion by leasing out about half of the land to the investors under long term lease basis. Even though 4 years had elapsed since the commencement of the Project, the number of houses intended to be completed under the first Phase had not been completed. The Authority had failed to earn an expected income of Rs.25 billion and it was observed in audit that the financial issues would arise in respect of redeeming of debentures in the year 2015. The Chairman had informed to audit that by the end of the year under review, 500 houses had been vested with the people and a land of 9 acres in extent had been freed and it had been planned to earn funds to redeem the debentures by issuing new debentures in the year 2015

4.2 **Management Inefficiencies**

The following observations are made.

- (a) The Authority had transferred the rights of utilizing the land of the new bus stand at Balangoda Town in the year 2008 to the Urban Council, Balangoda and in transferring that land, action had not been taken to recover the assessment value of the land amounting to Rs. 40,000,000 from the Urban Council, Balangoda.
- (b) Fifty three houses allocated to be granted as temporary houses for persons displaced due to development activities carried out by the Authority, had been granted as official quarters to the staff of the Authority and other external parties for over a period of 15 years. Action had not been taken to take over these houses and revise the rentals thereof even by 31 December of the year under review.

- (c) A motor cycle and a van parked in the vehicle park of the Sethsiripaya premises owned by the Urban Development Authority had been misplaced in two instances in the year under review due to following traditional and outdated security systems for the security purposes of the Sethsiripaya premises.

4.3 **Operating Inefficiencies**

It was observed that a sum of Rs. 34,236,993 had been deprived to the Authority due to failure in revising monthly rentals of the rented houses belonging to the Urban Development Authority in an updated manner.

4.4 **Uneconomic Transactions**

The following observations are made.

- (a) A sum of Rs. 500,000,000 had been invested by the Authority in the fixed deposits of a private bank since October 2010 for a period of 03 years at an annual interest rate of 11 per cent without considering alternative investment opportunities. If the short term investment opportunities proposed by the State Banks to the Authority had been used, an additional interest income of Rs. 45,887,565 could have been earned by the Authority.
- (b) Three contracts had been awarded to demolish the buildings in a land located in Colombo Fort area. One contractor out of them, had removed 1,000,000 square shaped metals laid on the land without permission and stored in a private place and the Authority had spent a sum of Rs.6,500,000 to bring those metals to the Authority premises. Further, it was observed that the relevant land had remained idle without being utilized for over a period of 02 years.
- (c) The lands are acquired by the Authority for a specific development purpose in terms of Section 38(a) of the Land Acquisition Act, No. 09 of 1950. However, it was revealed that the lands with existent of 727 acres located in 10 Districts of the island, acquired since the year 1984 had not been utilized for the development activities. It was further observed that a sum of Rs. 585,531,051 had been incurred for expenditure on acquisition and compensation thereon and the process of payment of compensation for certain lands, is being still carried out. The Chairman had expressed that the acquisition of lands, payment of compensation and release of those lands for development activities is an activity for which a long period is taken.

4.5 **Transactions of Contentious Nature**

The following observations are made.

- (a) It was observed during the audit test check that 66 properties existed, for which the Certificates of Conformity and 38 condominium properties, throughout the island including Colombo and suburbs, for which Certificates of the Condominium Management Authority had not been obtained in terms of Apartment Ownership (Amendment) Law, No. 11 of 1973. The Authority had not taken action to charge a fee for a covering approval for such unauthorized constructions in terms of 6 II of Schedule V of the Gazette Extraordinary Notification No. 1597/8 of 17 April

2009 of the Democratic Socialist Republic of Sri Lanka or to acquire the assets in terms of Section 28(a) and (b) of the Urban Development (Amendment) Act, No. 04 of 1982.

- (b) Constructions of the two storied building located at No. 475, Sri Jayawardanapura Mawatha, Rajagiriya had not been made according to the recommendations given by the Sri Lanka Land Reclamation and Development Corporation and the Municipal Council, Sri Jayawardanapura, Kotte. However, the Authority had not taken steps to take legal action against the owner of the land in terms of Section 28 and 29 of the Urban Development Authority (Amendment) Act, No. 04 of 1980.

An application to obtain the Initial Planning Clearance Certificate for construction of another 7 storeys in this building had been submitted to the Urban Development Authority on 29 December 2010 by the applicant. Despite having awareness of the Urban Development Authority in respect of unauthorized reclamations of that place, the relevant Initial Planning Clearance Certificate had been given without considering the matter. Further, the original file maintained by the Authority had not been presented to audit.

- (c) The contract for demolishing 6 buildings in the land with an extent of 3 acres and 35 perches located at Rajagiriya vested with the Authority under Interim Order 38 (a) of the Land Acquisition Act, No. 9 of 1950, had been awarded to a contractor not registered as a contractor in the Line Ministry and without the recommendation of the Technical Evaluation Committee and the approval of the Procurement Committee.

- (d) In examining the functions of the Internal Valuation Committee and the valuation reports thereof of the Urban Development Authority, it was revealed that there were shortcomings with regard to the confidentiality and accuracy of those valuation reports as the Internal Valuation Committee consists of officers without professional qualification recognized by the Government. Even though the valuation reports should be obtained from the Government Chief Valuer in acquiring lands and building in terms of the Financial Regulations, it had not been so done.

The Chairman had stated that the internal valuation had been obtained only for preliminary activities and valuation for compensation was made on the valuation of the Government Chief Valuer and the Internal Valuers as well the persons are possessed with adequate qualifications.

4.6 **Apparent Irregularities**

It was observed that the physical development activities on behalf of external parties are carried out by utilizing the Funds of the Urban Development Authority and a sum of Rs.23,660,316 had been spent for such 05 Projects in the year under review and the approval of the Board of Directors had not been obtained for activities for which a sum of Rs. 13,525,398 of that had been incurred.

4.7 **Personnel Administration**

The following observations are made.

- (a) The approved cadre and the actual cadre of the Authority as at 31 December 2013 had been 1,670 and 1,554 respectively. The Authority had recruited 209 persons exceeding the approved cadre and existence of vacancies in 325 posts was observed. The approval of the Board of Directors or the Department of the Management Services had not been obtained for the recruitment of officers for different posts exceeding the approved limit.

- (b) A Scheme of Promotion based on the performance had not been introduced in terms of instructions of the Management Services Circular No.30 of 22 September 2006. The following shortcomings were observed in granting promotions to the staff.
- (i) Calling the applications deviating from the Scheme of Promotion in granting promotions.
 - (ii) Failure to obtain a certificate of conformity from the National Salaries and Cadre Commission to confirm that the absorption had been made correctly after placing the current service categories and posts in the new salary structure and before implementing same.
 - (iii) Granting promotions for the posts which are not included in the approved cadre of the Authority.
 - (iv) Granting promotions for the posts deviating from the posts called for the interviews.

5. **Accountability and Good Governance**

5.1 **Presentation of Financial Statements**

Even though the draft financial statements and the annual report for the year under review should be presented for audit within 60 days after the closure of that year, the draft financial statements prepared according to the new Auditing Standards had been presented to audit only on 12 January 2015 after a delay of 10 ½ months.

5.2 **Corporate Plan**

Even though the Corporate Plan prepared for the years 2008 – 2012 had been updated in the year under review, the Corporate Plan prepared for the years 2013 – 2017 had not been prepared in compliance with the provisions of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

5.3 **Action Plan**

The following observations are made.

- (a) The Annual Action Plan had not been prepared in compliance with the targets indicated in the Budget Estimate of the Authority for the year 2013.
- (b) Even though the progress reports are prepared quarterly by the Authority, such reports are not compared with the data presented in the Action Plan. As such, it was observed that the Action Plan had not been made use of as an effective instrument of management control.

5.4 **Internal Audit**

Even though the Internal Audit Unit had observed that certain existing control systems remained weak, it was observed that there was not an approach within the Entity to empower such control systems. Further, the staff of the Internal Audit Unit had not been motivated to enable to obtain a quality service. Further, action had not been taken to empower the staff of the Internal Audit Unit in line with widening of the functions of the Authority. Several instances were observed that the Management had not paid an adequate attention on deficiencies pointed out by the staff of the Internal Audit unit.

5.5 **Budgetary Control**

The following observations are made.

- (a) Significant variances were observed in comparing the actual income of the rent, sale of fixed assets, service charges, interest, dividends and sundry income etc. with the estimated income, thus indicating that the budget had not been made use of as an effective instrument of financial control.
- (b) The sum of Rs. 5,494,600,000 allocated for 43 Projects which had been planned to implement according to the budget of the Authority of the year under review, had not been utilized within the year due to failure in commencing those projects. Further, that value is 39 per cent of the allocations for all projects. In addition to that, 60 projects valued at Rs. 4,217,110,000 which had not been identified in the budget had not been implemented.

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.

5.7 **Performing the Environmental and Social Responsibilities**

It is observed that an adequate attention had not been paid by the Authority on performing the environmental and social responsibility according to the following matters.

- (a) Steps had not been taken to create a balanced urban development throughout the island in order to provide a comfortable living environment to the community.
- (b) The Authority had not performed its responsibility at optimum level to avoid the unauthorized constructions as the empowered entity for that purpose.
- (c) The Authority had faced with questioning of Health Services Sectors on the spread of Dengue disease due to failure in maintaining proper cleaning of Head Office premises of the Authority.

5.8 Unresolved Audit Paragraphs

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

- (a) The alternative trade centre constructed for road hawkers at a cost of Rs 16 million at Saunders Place in Pettah in the year 2002 had not been utilized for intended purposes.
- (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 Chairman, Director General and 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. The Chairman had stated that legal procedure had been commenced in that connection.
- (d) The outstanding contributions payable to the Employees' Provident Fund and Employees' Trust Fund had not been remitted in an updated manner.
- (e) Even though the assessed value of Rs. 406,483,000 of the Water's Edge Hotel vested in the Authority in the year 2008 on a Court Decision should be paid to the company which was the owner of the Hotel, the Authority had not taken action to pay that amount even by the end of the year under review.
- (f) Although a sum of Rs. 92,000,000 had been invested by the Authority for the purchase of shares in a private company, no return whatsoever on investment had been received at the end of the year under review, since the year 2005. According to the decision taken by the Cabinet of Ministers subsequently, the Company should be converted into a Public Limited Company and recovered the value of investment made by the Authority. However, the Authority had not taken action accordingly. The Chairman had stated that action is being taken to liquidate that company according to a Cabinet Decision.
- (g) On behalf of the lands vested with a Subsidiary, 18 per cent of preference shares of the Subsidiary valued at Rs.28,950,000 had been issued to the Authority in the year 2005 and no benefit whatsoever had been received on the investment since its inception.
- (h) No dividend whatsoever for the year under review had been received on the investments of Rs. 500,000 made at the Housing Development Finance Corporation and Rs.36,309,841 made at Colombo Land and Development Company by the Authority.
- (i) 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 in terms of paragraph 16(1) e of Section II of Urban Settlement Development Authority Act, No. 36 of 2008.

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) Disposal of Motor Vehicles
- (c) Security Bonds
- (d) Recovery of money from Debtors
- (e) Settlement of Advances
- (f) Maintaining and updating of Registers of Fixed Assets
- (g) Preparation of Development Plans
- (h) Budgetary Controls
- (i) Issuing of Settlement Certificates for Development Purposes