

URBAN DEVELOPMENT AUTHORITY



Annual Report *2016*

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Auditor	- Auditor General

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Urban Development Authority

Thus, the Urban Development Authority operates over a broad area in implementation of its development activities.

The Urban Development Authority, a statutory body established on 06.09.1978 under the Act No.41 of 1978 of the National State Assembly, is vested with the power to promote integrated Planning and implementation of Economic, social and physical *development* of the areas declared by the Minister in-charge of the subject pertaining to the Urban Development Authority.

In accordance with the Urban Development Authority Act, the Authority performs the following duties and functions:

- To formulate plans for capital improvements and investments in the declared development areas
- to undertake the execution of development projects and schemes approved by the Government
- Replacement of urban lands
- To enter into agreements with various parties for implementation of development projects
- To undertake the completion of any development project in default by any party failing to complete such project or scheme
- To formulate and implement capital improvement programmes
- To develop environmental standards and prepare schemes for environmental improvements
- To plan and implement housing schemes, and undertake development of slum and shanty areas
- To plan or propose development projects, and to supervise or coordinate such activities in collaboration with other government institutions
- To provide technical planning services for the benefit of the other government institutions.

Vision

“Towards a Planned, Sustained and Adored Urbanization”

Mission

“Promote Integrated Planning and implementation for the economic, social, environment and physical development of the declared urban areas.”

Chairman's Review



The Urban Development Authority as the leader in urban development is making an enormous contribution towards the development cause of Sri Lanka. I am pleased to present the Annual Report for the year ending 31 December, 2016, which elaborates the performance of the Authority in the year 2016.

Well-managed urbanization paves the way for development in the business and industry sector, and in turn, the employment opportunities thus generated have led to higher income earning, thereby ensuring the general well-being of the people. Since this situation calls for a high-scale expansion of the urban infrastructure facilities, urbanization sets a major challenge for a developing country. Many areas of Sri Lanka are currently coming under urbanization, giving rise to a high demand for infrastructure facilities.

This year as well, the Urban Development Authority has implemented development activities spanning a wider area, acting in accordance with the provisions of the Urban Development Act. While making its active contribution towards development of urban infrastructure facilities, the Urban Development Authority has continued to carry out a substantial task towards development of housing facilities for those family units living under poor facilities.

The Sukhitha Purawara project and the Urban Regenerative Project initiated under the direction of the Ministry of Mega polis and Western Development are the prime projects among such initiatives. Around 17 housing projects are being implemented under the Urban Regenerative Project. In addition

several housing projects were initiated under the Middle-income Housing Project as part of the Government's programme for provision of 50,000 housing units for the middle-income families within the next five years. Further, a number of development projects have been implemented island wide through the sub offices of this Authority.

A satisfied staff is required for obtaining a productive service. Therefore, with a view to further enhancing the staff satisfaction, the Authority carried on the welfare programmes this year as well, and the staff was provided with the opportunity to enjoy such privileges as annual bonus, loan facilities and payment for medical leave.

In terms of the financial situation, 2016 was a quite satisfactory year for the Authority with its achievement of an after tax profit of Rs. 198 million, which is a 249% growth in relation to the previous year. The total income of the year is Rs. 1,749 million. I am of the belief that this financial stability is the result of the proper management decisions and the efficiency of the staff.

I, as the Chairman, take this opportunity to express my gratitude to all those who extended their cooperation to overcome the challenges and make this another year of success.

Chairman
Urban Development Authority

Board of Management

Mr. Ranjith Fernando (Chairman)– from 30.01.2015

BLaws(Hons) , Attorney At Law(1st Class), Fellow - CIB(London) , Fellow – CIMA(London) , Companion - CIMA
Chairman – Urban Development Authority

Dr. Jagath Munasinghe- (Member)from 28.10.2015, **(Chairman)**– from 04.07.2016

PhD, National University of Singapore, MSc, (Tow. & Cont.PI), University of Moratuwa, MSc.(Aechi)
University of Moratuwa, BSc(Built Environment)University of Moratuwa , AIASL,MITPSL
Senior Lecturer – University of Moratuwa
Chairman – Urban Development Authority

Mr. N.N. Mawilmada (Secretary) - from 30.01.2015

BArch-Hampton USA, MBA- Harvard Business School,MCP-Cambridge USA
Director General – Urban Development Authority

Mr. S.S.P. Rathnayake (Secretary) – from 02.05.2016

BSc.Eng(Hons), CEng , MIE(SL) , PG Diploma(H&T)
Director General – Urban Development Authority

Dr.I.H.K.Mahanama

PhD(Economics) , MSc(Regional Development Planning) , BA(Economics)
Secretary -Ministry of Lands - from 26.02.2015

Mrs. Anoma Nandani -from 24.02.2015

MPP-Japan ,Business Adm.-University of Jayawardenapura
Director (Budget) – Ministry of Finance

Mr. S.L.Palansooriya– from 09.03.2015

BA-University of Peradeniya,Small and medium scale industrial Higher Diploma inUniversity of Philippines,
Public Relation Training Diploma-IBM
Chairman – National Housing Development Authority

Mr. S.A.Nimal Saranathissa – from 0.03.2015

BA(Special), MA , Attorney-At-Law
Additional Secretary (Administration and Procurement) – Ministry of Power and Energy

Mr. G.L.S. Senadheera – from 03.06. 2015

BA-University of Jayawardenapura ,MA-University of Kelaniya
Additional Secretary -Ministry of Education

Mr. Chandana Ranasinghe– from30.10.2015.10.30

MBA, University of Jayawardenapura ,BSc.Eng, University of Moratuwa
Working Director - Urban Development Authority

Mr. Madhawa Waidyarathna – from 08.12.2015

MBA,MSc – (IT) ,MA , BSc,- (Chemistry) Special
Additional Secretary – Ministry of Megapolis and Western Development

Mr. Vidya Dilruk Amarapala –from 08.12.2015

MBA, Member of AMT, Member of IEEE
Consultant - Energy, Investment Promotion, Project Management and Implementation

Mr. P. Sanath Panawennage – from 08.12.2015

MSc, University of Jayawardenapura ,MBA, University of Jayawardenapura , CEng.,MIET
Director General - Arthur C. Clarke Institute

Mr. A.G.M.M. Wimalasooriya – from 08.12.2015

BSc(Hon) ,Dip. in Meteorology.& Climatology.

Deputy Director – Department of Meteorology

Mr. T.D.S.P.Perera – from 14.12.2015

BCom-University of Colombo,MEco- University of Kelaniya ,MSc- University of Kelaniya

Additional Secretary - Ministry of Industries and Commerce

Mr.H.T.K.Pathmasiri –from 29.12.2015

MPAd .University of Jayawardenapura ,BA.University of Peradeniya.

Secretary – Ministry of Provincial Councils and Local Government

Mr. A.T.L.P. Samarasinghe– from 31.08.2016

Member of Institute of Engineering and Technology UK

Chartered Engineer- Engineering Council UK

MBA in Electronic Governance University of Moratuwa

Bachelor in Management-OUSL

Graduated from the Institution of Engineering & Technology UK

Additional Secretary – Ministry of Transport and Civil Aviation

Ms. B.B.I.A.Perera – from 03.10.2016

Diploma in wind power Development and use,Life Academy ,Sweden

Diploma in Development Planning , SLIDA

Msc Agriculture(Sp in food Sc. & Tech) University of Peradeniya.

BSc. Agriculture(Sp) University of Peradeniya.

Assistant Director - Ministry of Electricity and Renewable Energy

Mr. H.Hewage – from 07.11.2016

BSc. (Public Ad.) Special

M.A (Economics)

Member of AAT (SL)

Licentiate Certificate of the ICASL

Additional Secretary (Administration and Finance)- Ministry of Education

Mr.W.D.A.Sunil Perera – from 07.12.2016

Post Graduate Diploma in Business and Financial Administration

BSc(Mgt)Sp.2nd Upper University of Sri Jayawardenapura

Fellow of ICASL

Fellow of CIMA

Fellow of AAT

Financial Consultant - Sri Lanka Land Reclamation and Development Corporation

Key Personnel

Chairman	Mr. Ranjith Fernando Mr. J.N.Munasinghe	From 01.02.2015 to 07.04.2016 from 07.07.2016
Additional Director General	Brigadier J.M.S.S. Jayasundara	From 14.02.2011
Director General	Mr. N.N. Mawilmada Eng. S.S.P.Rathnayake	From 02.02.2015 to 03.05.2016 From 04.05.2016
Deputy Director General (Finance and Commerce)	Mr W.L.D.P.V.Jayawardene	From 15.11.2011
Deputy Director General (Projects)	Mr. M.C.Vithanarachchi	From 31.10.2016
Deputy Director General (Planning)	Mr. K.A.D. Chandradasa	From 03.10.2016
Head, Enterprises Development Division	Mr. R.M. Dananjaya Siriwardene	From 15.11..2011
Chief Internal Auditor	Mrs. M.V.S.K.Manodara Mrs. N.P. Dissanayake	From 01.01.2011 to 20.04.2016 From 11.07.2016
Acting Director (Finance)	Mr. H.R.C.Gunathilaka	From 26.04.2016
Director (Human Resource Management and Development)	Mr.W.A.S.Sumanasooriya	From 22.03.2012
Director (Assets Management)	Mr. G.W.G. Abegunawardene	From 20.05.2015
Director (Engineering Services)	Mr.L.A.D.J.Sisira Kumara	From 26.01.2011
Director(Land Development and Management)	Mr. H.A.Dayananda	From 20.12.2012 to 29.05.2016 From 01.12.2016
Acting Director(Land Development and Management)	Mr. K.L.W.Perera	From 30.05.2016 To 30.11.2016
Director (Environment and Landscape)	Mrs. C.K.E. Kalupahana	From 24.10.2012
Director (Enforcement)	Mrs. N..S.Kusumseeli	From 21.10.2013
Director (Geographical Information Systems and Progress Control)	Ms. J.C.S.Somasekera	From 01.12.2016
Director (Law) Acting Director (Law)	Mrs.. T.Liyanaarachchi Mrs.. B.M.D.P. Banneheka	From 22.09.2016 From 20.10.2015 To 21.09.2016
Director (Development Planning)	Mr. K.A.D.Chandradasa Mr.H.J.C.Ranaweera	From 25.05.2015 to 02.10.2016 01.12.2016
Director (Western Province) Acting Director (western Province)	Mr.N.A.S.N. Nissanka Mr. N.A.S.N.Nissanka	From 01.12.2016 to 31.12.2016 From 20.05.2015 to 30.11.2016
Director (Urban Relocation Project)	Brigadior S.A.R.Samarasinghe	From 06.04.2013

Director (Middle-Income Project)	Mr. E.A.C. Piyashantha	From 20.12.2016
Director (Northern and Eastern Provinces)	Mr. N.P..K. Ranaweera	From 01.12.2016
Director (Design, Project Management and Consultation Services /Project Management)	Mr. L.N.N.A.Samarasinghe	From 01.12.2016
Co-Director (Design, Project Management and Consultation Services /Project Management)	Mr.M.C.Vithanarachchi	From 17.10.2013 to 30.10.2016
Director (North-Western Province)	Mr. W.J. Seneviratne	From 08.04.2014
Director (Northern Province)	Mr. N. Rajanayagam	From 07.04.2014
Performing Director (Northern Province)	Mr. Y.A..K.Gunathilaka	From 07.04.2014 to 30.11.2016
Director (Northern Province)	Mr. Y.A..K.Gunathilaka	From 01.12.2016
Director (North Central province)	Mr. D.M.B.Ranatunge	From 26.01.2011
Director (Sabaragamuwa Province)	Mr. P.D.K. Pathirana Mr. D.M.S.M.Dissanayake	From 25.05.2015 to 01.12.2016 From 02.12.2016
Director (Uwa Province)	Mr. M.P. Ranatunge Mr.H.M.A.R.Medawela	From 24.10.2013 to 13.03.2016 From 01.12.2016
Director (Southern province)	Mr. L.N.N.A. Samarasinghe Mr.K.H.M.W.K.Aberathna	From 18.12.2012 to 01.12.2016 From 06.12.2016
Director (Central Province)	Mr. M.M.L.P.Wijeratne Mr.M.P.Ranathunga	From 18.12.2013 to 01.12.2016 From 14.03.2016

Review

The Urban Development Authority, established under the Urban Development Authority Act No.41 of 1978, has been carrying out its development activities in a wider range in Sri Lanka for a period of over four decades. Accordingly, the Urban Development Authority formulates and promotes integrated development planning for economic, social, environmental and physical development of the declared urban development areas.

The Urban Development Authority has continued to carry out an important task for improvement of the housing facilities of the people living in urban areas. In 2016, the Urban Development Authority completed construction of 266 housing units under the Siyasettha Sevana housing programme and construction work of 12,963 housing units was in progress. Development of the Colombo Fort pedestrian path system and construction of relocated shops were commenced in 2016, with a view to putting to proper development purposes the commercial lands that are currently not under use due to irregular development activities. The Urban Development Authority has continued to take the lead towards development of a few major towns identified for development under the town development programmes and the required investments for this purpose have also been made.

Under the said development initiatives, several urban development projects such as development of drainage systems and lands, town development, development of roads and multi-storied vehicle parks and construction of commercial schemes and public markets were underway in the year 2016.

The Urban Development Authority made its contribution by providing consultation and construction support for the Mega polis Project which consists of the seven projects, the Colombo Financial City (Fort City) development project, Sri- Jayawardanapura Kotte Administrative City Project, Homagama- Malambe Science and

Technology City Project, Horana and Mirigama Industrial City Project, Katunayake Aero City Project, Avissawella Plantation City Project and the Baduraliya Forest City Project, being implemented under the Megapolis and Western Development Project.

In addition to the above, development projects such as the Haputhale Viewing deck, Green Park in the Killinochchi town, Entrance to Kathragama, Wetland conservation project in Sathurukondan, Habaraduwa bus stand and Deepa Uyana were implemented throughout the country.

A special programme was initiated this year to review the performance of the establishment. Utilization of Key Performance Indicators (KPI) was commenced as a pilot project this year to review whether the targets set by the departments and sub offices existing under the Urban Development Authority's establishment structure have been achieved.

Further, various programmes were commenced in collaboration with the Ministry of Mega polis and Western Development with the aim of attracting investments for the next 10 years.

The contribution of the construction sector to the Gross Domestic Production which was at 6.9% in 2015 has grown to 7.8% in 2016. Making its contribution to this growth in the construction sector, the Urban Development Authority has managed to support the mammoth development process of the country in the year 2016 too.

"Sukhitha Purawara" Programme

The present government has started the development of the Western region under the Western Region Mega polis Planning Project formulated to cover the development of the whole western region. The present population of the Western province is 5.8 million and it constitutes a 29% of the total population of the country. The contribution of the Western province to the Gross Domestic Production is nearly 45% of the country's total Gross Domestic Production. Therefore, due to the vast competitive benefits available, the Western province has attracted a large migrant population towards it over the past several years. This excessive internal migration has resulted in a high urban expansion in the Colombo city and this expansion has moved beyond the administrative boundaries of Colombo to reach the suburban areas within and beyond it. As a result of this situation, a row of secondary sub towns within the space structure of the Colombo city. The development of these sub towns has not been done through an integrated planning approach. Instead an unorganized development has taken place based on the ambitions of the individual developers and investors.

With the excessive increase in the population in the suburban area towns, the demand for physical, social and environmental facilities has continued to grow at a faster pace than that of the growth of the supply of such facilities. This imbalance has given rise to a number of major issues within such suburban systems, related to transport, housing, public entertainment and economy.

Under these circumstances, the Urban Development Authority, with the guidance of the Mega polis and Western Development has initiated the Sukhitha Purawara programme to address the issues that should be solved on a short-term basis.

The objectives of this programme are:

- Enhancing the convenience of the users of town.
- Enhancing the habitability in town
- Developing the economy of the town in order that all parts of the community are benefitted.
- Solving the issues related to traffic congestion, demand for housing, open areas for the community etc.

Under the programme, 21 strategically significant towns situated in the Western province were identified. It is intended to identify and implement strategic projects that have the potential to deliver short-term results and facilitate an evolving process.

The tentative cost estimate for implementation of all projects proposed under this project amounts to Rs. 25 billion and a sum of Rs. 7.6 billion out of this estimate has been invested in the year 2016.

Under the "Sukhitha Purawara" programmes strategic projects have been identified for development of the Homagama, Kottawa, Makumbura, Maharagama, Piliyandala, Kaduwela, Battaramulla, Malambe, Borella, Kolonnawa, Hanwella, Avissawella, Panadura, Kaluthara, Horana, Bandaragama, Kadawatha, Gampaha, Kiribathgoda, Ja-Ela, Ragama and Kerawalapitiya towns.

These projects are implemented through the state institutions, namely, the Sri Lanka Land Reclamation and Development Corporation, State Development and Construction Corporation, Provincial Road Development Authority (WP), State Engineering Corporation and the Central Engineering Consultancy Bureau.

Urban Regenerative Project

A population density over a 50% of the Colombo city population lives in shanties or dilapidated old housing schemes and such settlements occupies only a 9% of the total land area of the city. It has been revealed through a survey currently being carried out by the Urban Development Authority that 68,812 family units living in 1,499 low-income settlements do not have clean housing facilities, the basic infrastructure facilities such as water and a suitable sanitary living environment. Relocation of those family units in new housing schemes with accepted standards such as electricity and sanitary facilities will constitute a major step towards achieving the Colombo city development goals and transformation of the Colombo city in to a globally recognized city with a clean and pleasant ambience.

With a view to fulfilling these objectives, the Urban Development Authority has initiated a programme to construct 60,000 housing units for establishment of low facility- settlements in the Colombo city and in its suburbs. .

The main objective of this project is provision of proper housing units to those family units living in shanties or dilapidated old housing schemes, removal of shanties and houses constructed in an unorganized manner and utilization of thus released lands with a high commercial value for productive development projects.

In the examination of the land use pattern in the Colombo Municipal Council area, it is found that the city is scattered with settlements of the displaced, and such settlements have been widely spread in the Colombo-North and Colombo-East areas. Therefore, the urban Development Authority have engaged in development of the physical, social and economic infrastructure facilities in parallel with the development of housing facilities, and has decided to implement further housing development projects in those areas. A few

projects that were in progress in 2016 under Phase I and Phase II are as follows.

	Name of the Housing project	No. of housing units
1.	Thachchiwatta	68
2.	Angoda	500
3.	Kalinga Mawatha	528
4.	Torrington avenue	120
5.	Salamulla	792
6.	Aluth Mawatha	672
7.	Kolambage Mawatha	624
8.	Kolonnawa	696
9.	Maligawatta	768
10.	Maligawatta	1647
11.	Agrarian service lands	941
12.	Mutwal	1076
13.	Orugodawatta	1672
14.	Apalwatta	479
15.	Aramaya place	717
16.	Kimbula Ela	472
17.	Kolambage Mawatha	615

Midle-Income Housing Programme

A solution for the housing issue, especially, of the middle income recipients living in the vicinity of the city has not been available for a period of around two decades

With a view to addressing this social problem, the housing demand of the upper-middle and the upper income recipients has been analyzed and, the Urban Development Authority has discovered that there is a high demand for housing of this category. Therefore, the the government has decided to provide 500,000 housing units for the middle income recipients, within the next five years. With a view to achieving the above



objective based on the aforesaid subject scope, the Urban Development Authority has initiated several housing programmes.

The Urban Development Authority has commenced a housing scheme intended for the government sector employees. Under the said initiative, a project has been started to construct a housing scheme that consists of 608 housing units of which a unit costs Rs. 8.5 million and will be available with loan facilities from the local commercial banks on favorable conditions.

The work of this project being constructed in the Pelengasthuduwa area in Borella is proposed to be completed by the end 2019.

Other projects implemented in 2016

A number of development projects are being implemented around the country with the aim of achieving a balanced development, and supervision of those projects is carried out both by the headquarters and the sub offices established island wide. A few projects thus implemented in 2016 are indicated below.

Haputale Observation Deck



the nature's beauty.

This project is carried out to facilitate promotion of tourism, and a sum of Rs. 40 million from the Ministry of Mega polis and Western Development under the Skhitha Purawara programme and a sum of Rs. 05 million from the Urban Development Authority have been allocated for this project. By the end of 2016, around 80% of the construction work has been completed.

This observation desk offers a restaurant facility and is an ideal place for the tourists interested in enjoying

Phase 1 of

the Green Park in the Killinochchi town.



Most of the people living in the Killinochchi district are engaged in livelihood related to agriculture activities. The population of the Killinochchi town is on the increase with the returning of the migrants who had gone abroad during the past civil war period.

Therefore, development as a green park of the area around the junction where the A9 road and the Kanagapuram road meet was commenced in 2014, and the work has been completed by the end of 2016. The project has been carried out at a cost of Rs. 15.5 million and the Urban Development Authority has received 6% in consultation fee.

Relaxation Park in Mihintale

Mihintale, a sacred city of the Sri Lankan Buddhists, is a crowded place due to the influx of people daily arriving at the place, and due to non-availability of proper public facilities to meet their requirements, the town planning showed an unorganized ambience. Therefore, the need was identified for development of the public utilities of the town in an organized manner.

The above project has been implemented under the project for development of the Matale town in the North Western province. This project was commenced with around Rs.15.5 million funds provided by the General Treasury, and the project includes vehicle parking facilities, relaxation facilities, children's parks and sanitary facilities

Development of Entrance to Kataragama

The main objective of this project is to develop the living standards of the people of the people and provision of better facilities



The specific objectives of the project are upgrading the economic and commercial activities in the heart of the town, landscape development for pleasant ambience, control of development activities in accordance with in an organized manner and building regulations. Since the public utilities available for the pilgrims visiting the Kataragama sacred area, the arrival of the local tourists will also increase.

This project includes development of shops and vehicle parking facilities as well, and the estimated project cost is Rs. 80 million. Construction work has been completed by the end of 2016.

Sathurukondan wetland conservation project – Phase 01

This project was initiated with Rs.185 million funds provided by the General Treasury. The project which is implemented within the Batticaloa municipal area, consists of three phases. Its phase I of construction of the nearby canal and flyover has been completed by the end of 2016.

The main objective of this project is to develop these wetlands. Preserving the bio- diversity of this wetland and protecting the native habitat of its creatures by protecting the wetland's capacity to hold water and thereby offering the interested persons the opportunity for enjoyment of the scenic beauty is further expected through this project. The Urban Development Authority receives 6% in consultation fee through this project.

Development of the Habaraduwa Bus Stand and Renovation of the Warehouse complex.



This bus stand and the warehouse complex are situated in the heart of the Habaraduwa town, adjacent to the Galle- Matara road. The existing city center is in a dilapidated condition and the town exhibits an unorganized ambience due to the abandoned buildings. The towns situated close to the Galle- Matara Road are rapidly getting developed. Therefore, a guiding plan has

been prepared for development of the Habaraduwa town under a specific town plan and as an entrance to the Galle town

Habaraduwa has a population of 60,000. The Project of Development of the Habaraduwa Bus Stand and Renovation of the Warehouse complex will provide this population with a more efficient transport service and entertainment facilities.

“Deepa Uyana” Project, Tourist Facilities Center and Information Center

Polonnaruwa District which is undergoing a rapid development as a commercial and administrative center and as a town with a historical value, has been identified as essentially requiring a development in the areas of tourist attraction and conservation of ancient monuments. Accordingly, as a sub project of the main project of Polonnaruwa development, “Deepa Uyana” Project, construction of Tourist Facilities Center and Information Center were commenced.

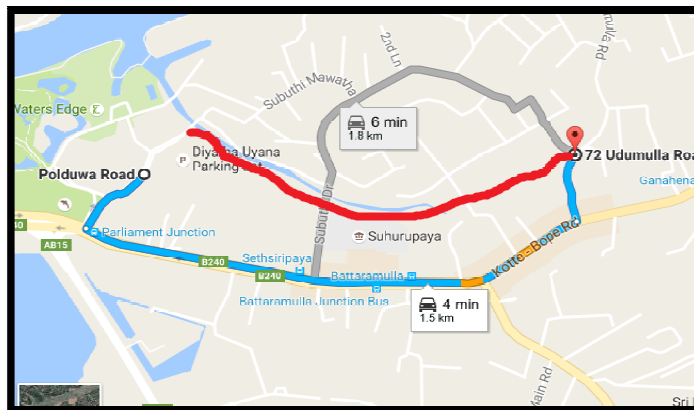


With an estimated cost of Rs.110 million, the activities of renovation and conversion in to an attractive park of the historical “Deepa Uyana” located in the Thamankaduwa Pradeshiya Sabha area, and with an estimated cost of Rs.226 million, the construction of the Tourist Facilities Center and the Information Center were completed by the end of 2016.

Battaramulla township development project

For the purpose of providing a more efficient transportation system to Sri-Jayawardanapura town which is under a rapid development as an administrative city, this project was jointly initiated by the Urban Development Authority and the Road Development Authority under the guidance of the Ministry of Mega polis and Western Development to construct a new road for the Polduwa-Udumulla road, multi- storied vehicle park and commercial complex. This project has been estimated to cost a sum of Rs. 649 million.

This Polduwa- Udumulla road which consists of four tracks is constructed in order to facilitate a convenient approach to Malambe, Kaduwela and Kelaniya roads bypassing the Bataramulla town



Kurunegala lakeside landscaping project

This lake constructed by the ancient kings, is located near the Kurunegala- Dambulla road. This lake is used as the source of the project for supplying of water to the whole Kurunegala town. The Kurunegala town is under development as the main town of the North-Western province. Although a population of 30,000 is recorded as the population within the town limits, the number of people daily arrive at the town is high while the town is rapidly growing due to the road facilities available.



Therefore, the need has arisen for arrangement of open areas and the places that facilitate entertainment and relaxation, in order to fulfill the demand for such facilities by the present and the future populations.

The Urban Development Authority has already got the work underway for beautification of the Kurunegala lakeside environment to improve the aesthetic appearance of the town, and by the end of 2016, the work of this project has been completed by around 90%. The lakeside beautification project consist of such activities as construction of walking paths, planting of trees, construction of vehicle parking facilities, lighting etc. The project has been estimated to cost a sum of Rs. 179 million.

Social welfare activities and important events in 2016

Sport
Day



Pirith Pinkama



Business and Investment Forum 2016

With a view to attract USD 16 billion worth investments within the next 10 years, the Urban Development Authority held in 2016 at the Water's Edge Hotel, the first business and investment conference named “ Investment Opportunities” targeting investments for the major towns of the Western province. The objective of this conference was raising awareness among over 100 local and foreign investors, under the theme of “Unlimited Opportunities”, about the investment opportunities available to them through the Mage polis and Western Development master plan.



Assets management and marketing

According to the provisions of the Urban Development Authority Act, any area declared as an urban development area can be acquired as a development area in the interest of the public, and any premises coming under the authority of Urban Development Authority can be transferred, sold, leased or rented for urban development purposes, subject to the Minister's approval.

The assets of the urban Development Authority are a combination of commercial lands and buildings, public parks, open areas and mutual ownerships in the land development bodies. The Urban Development Authority, established to bear a social responsibility, is engaged in maintenance of the Independence Square, areas around the Race Course grounds and public open areas in fulfilling the duties related to its social responsibility, and financing of this maintenance is carried on the income collected through charging of the market values related to the above assets.

Acquisitions

Description	Land extent (Ac. R. P.)	Objective of the Acquisition
Sukhitha Purawara	82-02-66	For social development purposes
Millewa Watta	735-.00-00	For industrial development purposes
188 Watta , Kotta Road, Borella Phase II	00-01-10	For residential development purposes
Development of the Kaduruwela town	47-02-21	For urban development purposes
Development of the Dambulla sacred site	02-03-14	For social development purposes

Providing lease facilities for commercial development activities

Description	Developer	Extent of land (acre.rood.perch)	Method of leasing
Wekada	Nippon Knit pvt. Ltd.	00-01-00	30 year- lease
Tripoli trade center building Maradana	Mobile Pvt. Ltd.		30 year- lease
Kaluwella-Galle	Galle Heritage Lanka pvt. Ltd.	01-03-28.7	99 year- lease
Homagama	H.I. Fashion Holdings pvt. Ltd.		30 year- lease
Homagama	Farm Chem pvt. Ltd		30 year- lease
Ratnapura	P. G. Hema Aberatna	00-00-09.53	30 year- lease
Weralupe-Ratnapura	Bar Association, Ratnapura – Courts complex	00-00-02.50	30 year- lease
Weralupe-Ratnapura	Bar Association, Ratnapura – Courts complex	00-00-02.50	30 year- lease
Weralupe-Ratnapura	Bar Association, Ratnapura – Courts complex	00-00-02.50	30 year- lease
Weralupe-Ratnapura	Bar Association, Ratnapura – Courts complex	00-00-02.50	30 year- lease

Hidellana – Ketaliyanpalla	Geological Survey and Mines Bureau	01-00-33.25	30 year- lease
Suduwella	People's Bank	00-01-21.60	99 year- lease
Weralupe-Ratnapura	Plantation and Rural Development Institute	00-00-02.50	30 year- lease
Kirulapona	Sri Lanka Valuation Institute	00-00-12.00	30 year- lease
Gannoruwa Road – Siribopura	Seylan Bank PLC – Seylan tower	00-01-16.87	30 year- lease
Maradana	London Stock Exchange Group pvt. Ltd.		10 year- lease
Weralupe-Ratnapura	D.M.B.C. Aberatne	00-00-02.50	30 year- lease
Wekada	Korean Spa Packing pvt. Ltd.	04-00-33.16	30 year- lease
Thalapathpitiya	Agriculture Research and Produce Association	00-00-10.00	30 year- lease
Fort	Krish Transwork Colombo pvt. Ltd.	00-02-17.40	99 year- lease
Nuwara-Eliya	People's Leasing and Finance PLC.	00-00-19.68	30 year- lease
Kataragama	National Savings Bank	00-00-22.00	50 year- lease
Hidellana	Water Supply and Drainage Board	00-03-13.19	30 year- lease

Performance of the Urban Development Authority

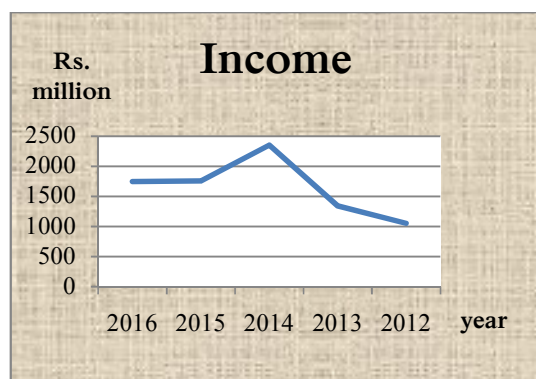
The main source of income of the Authority is the income on rent collected through long-term and short-term basis letting of the lands and buildings owned by the Authority, and in addition, a high income has been earned through the various consultation services provided by the Authority. Through the Finance Division of the Authority, payments in respect of the projects implemented by the Authority and payment of salaries and other statutory allowances for the whole staff are made.

Information related to the above activities are presented to the management of the authority and other relevant institutions on monthly, quarterly as well as on annual

Accordingly, an analysis of the financial state of the authority based on the financial statements for the year 2016 is presented below.

Income development

year	2016	2015	2014	2013	2012
income(Rs. million)	1749	1757	2352	1344	1055



Income Development

The total income has dropped by Rs. 8 million in 2016. That is by as a minimal amount as

0.4%. This drop in the total income is due to the less collection of key money than that was collected in 2015.

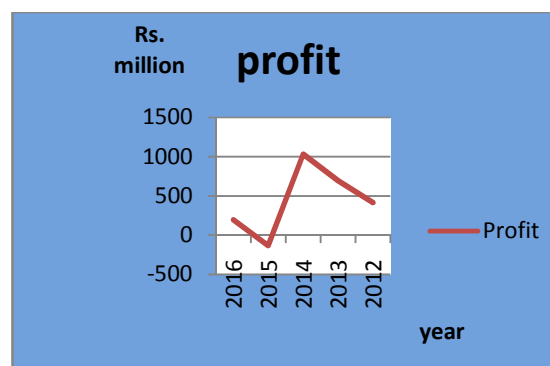
Expenditure Analysis

Description Year	Administrative and other expenditure (Rs. million)
2016	4193
2015	2420
2014	2395
2013	1973
2012	1446

In 2016, Administrative and other expenditure has increased by 73% in relation to the year 2015. This is mainly caused by the increase in the payment of interest for the short-term loans obtained for construction works of the projects being implemented by the Urban Regenerative Unit.

Profit of the Authority

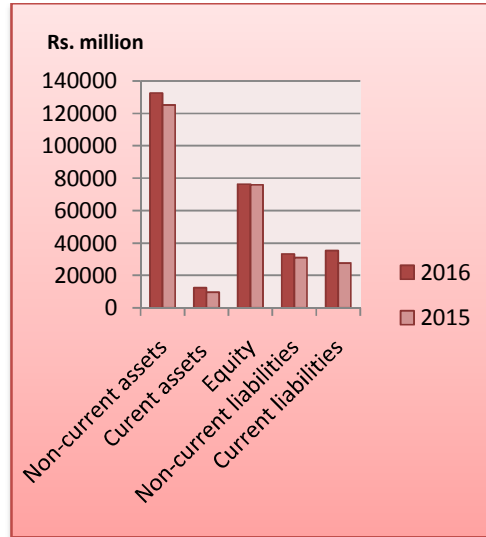
Description	2016 Rs. million	2015 Rs. million	2014 Rs. million	2013 Rs. million	2012 Rs. million
Profit	198	(133)	1032	696	414



In relation to the year 2015, the Authority has managed to secure a profit of around 249% in 2016. In spite of the increase in administrative and other expenditure, increase in other income by Rs. 2099 million has resulted in this increase in the profit.

Financial stability

Description	2016	2015
Non- current assets	132,512	125,197
Current assets	12,355	9,578
Total assets	144,867	134,775
Equity	76,392	76,016
Non- current liabilities	33,253	31,094
Current liabilities	35,221	27,665
Total liabilities	144,867	134,775



Summary of the financial Statement

As at 31st December 2016
(Rupees million)

Classification	2012 (re- evaluated)	2013	2014	2015	2016
Assets					
Non-current assets	95,659	99,410	116,905	125,197	132,512
Current assets	16,069	15,772	17,031	9,578	12,355
Total assets	111,728	115,182	133,936	134,776	144,867
equity and liabilities					
assets and reserves					
capital	100	100	100	100	100
Net government contribution	1,030	1,016	1,001	986	970
Externally provided equity	1,130	1,116	1,101	1,086	1070
reserves	79,111	73,852	75,140	74,930	75,322
Non-current liabilities	27,556	32,975	30,955	31,094	33,253
Current liabilities	3,931	7,239	26,740	27,665	35,221
Total equity and liabilities	111,728	115,182	133,936	134,776	144,867

Summary of the extensive income and expenditure statement
For the year ending 31 December 2016

(Rupees million)

Classification	2012 (re-evaluated)	2013	2014	2015	2016
Income	1,055	1,344	2,352	1,757	1,749
Other operating income	822	1,558	779	464	2,562
Total income	1,877	2,902	3,131	2,221	4,311
Establishments and administration expenditure	(1,423)	(1,936)	(1,903)	(2,082)	(2,415)
Other operating income	(23)	(36)	(492)	(75)	(353)
Financial cost	(1)	(1)	(1)	(263)	(1,426)
Operating profit (loss) after financial cost	430	929	735	(199)	117
Non-operating income	14	14	14	16	16
Profit/(loss) before tax	444	943	749	(183)	133
Expenditure on tax /deferred tax income	(254)	(247)	284	51	65
Profit/(loss) after tax	190	696	1,033	(132)	198
attributable profit / (loss)	(2)	(52)	(3)	(8)	22
Total extensive income for the year	188	644	1,030	(141)	220

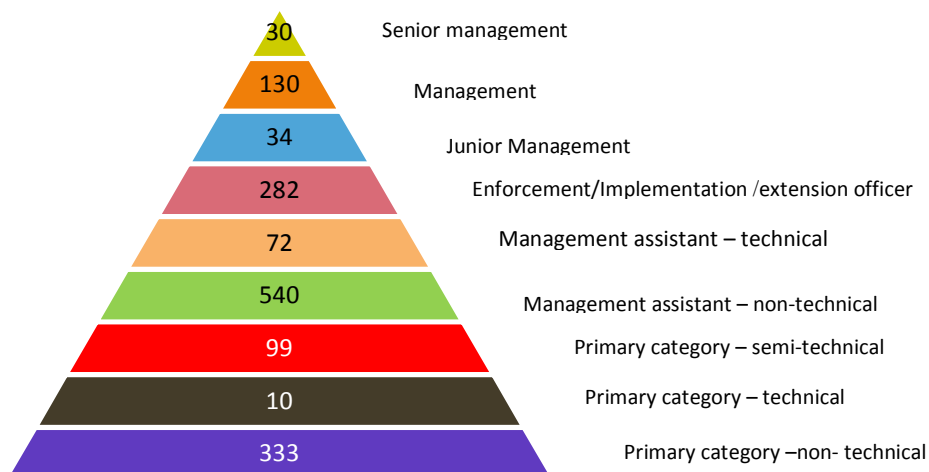
Summary of Cash Flow statements
For the year ending 31 December 2016

(Rupees million)

Classification	2012 (re-evaluated	2013	2014	2015	2016
Cash flow from operating activities					
Net profit(loss) before tax	444	943	749	(183)	133
Adjustments	(953)	(1,635)	(623)	(1,212)	(1,621)
Operating loss before working capital	(509)	(692)	(1,372)	(1,395)	(1,488)
Working capital changes	1,345	1,120	(1,484)	4,523	5,410
Cash flow from operations	5,253	4,918	4,289	1,550	1,986
Cash flow from investments	(14,271)	(5,945)	(4,493)	(15,428)	(6,764)
Cash flow from financial activities	452	(75)	3,522	10,682	(240)
Net increase in cash and cash equivalents	(7,730)	(675)	463	(69)	(1096)
cash and cash equivalents at the beginning of the year	7,885	155	(520)	(57)	(127)
cash and cash equivalents at the end of the year	155	(520)	(57)	(127)	(1223)

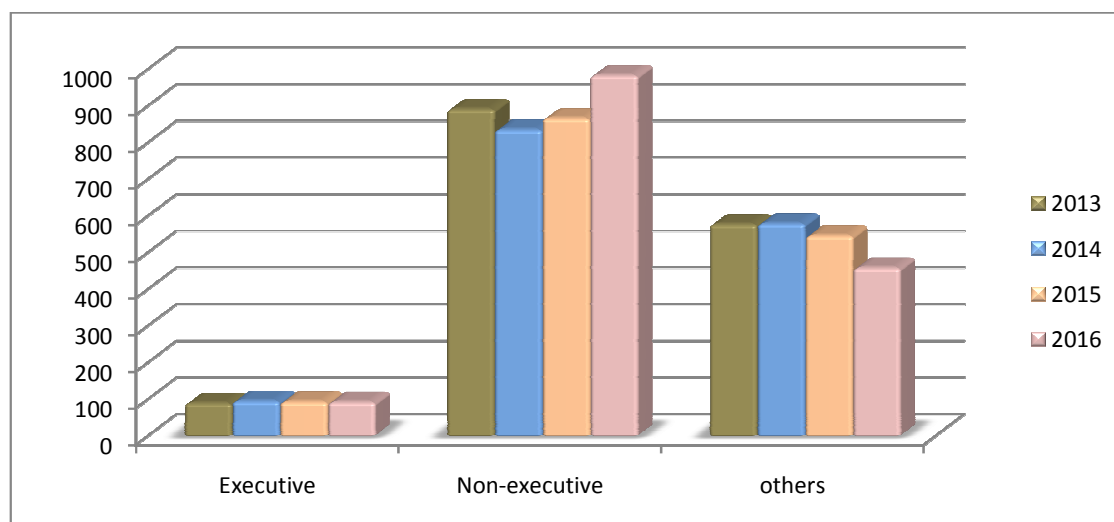
Human Resource Management

As at the end of 2015, the staff composition of the Urban Development Authority is as follows and the total number of staff is 1530.



Summary of the changes in the staff of the Urban Development Authority by the end of 2016

Grade	year					
	2011	2012	2013	2014	2015	2016
<i>Executive</i>	53	87	88	94	92	91
<i>Non-executive</i>	863	829	890	834	865	982
<i>Other</i>	592	654	576	578	545	457
<i>Total staff</i>	<i>1455</i>	<i>1570</i>	<i>1554</i>	<i>1506</i>	<i>1502</i>	<i>1530</i>



Staff recruitments and growth in 2016

Action of the human resource	No. of staff
Retirements	19
Deaths	01
Terminations	04
Dismisses	05
Promotions	56
Resignations	10
Recruitments	72
Transfers	170

Training programmes and scholarships

Local training programmes	
Lecture/workshops 17	emp. 250
Short-term courses 04	emp. 83
Long-term courses 03	emp. 19

Foreign training programmes	
Office observation 16	emp. 29
Scholarships 05	emp. 05

Staff have been directed for above training programmes/scholarships on the recommendations of the Training and Scholarship Committee of the Authority. The Committee comprises Director General of the Authority, Deputy Director Generals and Director – Human Resource and the committee has convened on three occasions in 2016.

Staff welfare in 2016

Medical treatment

Residential treatment 60	Non-residential treatment 1469
Rs.1,487,106/-	Rs.9,252,079/-

Loans for employees

Housing loans 14	Distress loans 434
Rs. 6,629,902/-	Rs.47,77200/-

Good Governance

In performing the development activities coming under its scope, the Urban Development Authority carries out its duties with the prime aim of bringing about a social and economic development that preserves environmental sustainability. The Authority is bound to carry out this task through the close collaboration between the board of management, the higher management and the other staff, with transparency and accountability.

The main aim of these measures is to adopt good governance practices through the board of management and the board of directors, in line with public requirements and the objectives of the Authority, safeguarding transparency and accuracy.

It is the duty of the urban development Authority to operate as a public enterprise towards ensuring higher economic development and welfare of the public. Accordingly, internal and external operations of the Authority are carried out in a systematic and well-disciplined manner. The practice of these manners, in addition to all rules and regulations applicable to an authority, has paved the way for preserving the integrity of the Authority.

Rules, regulations, circulars and directives set out in the Guidelines on Good Governance compiled by the Department of Public Enterprises are essential towards creating a better public service. The practices introduced through the Guidelines on Good Governance are important for a better financial discipline to shape up. The main objectives of this Guidelines compilation are bringing the operations of the public institutions into a framework of high standards, and simplifying and improving the quality of relevant operation methods. These guidelines provide guidance on how the objectives and goals of the Urban Development Authority can be achieved in its capacity as an entity of public enterprise.

Board of Management

In accordance with the Urban Development Authority Act, the Chairman and the Board of Management of the Authority are appointed by the minister in charge of the subject of urban development. As per the Act, the Chairman of the Authority should be the chairman of the board of management too. The duties and functions of the members of the board of management are :

- Evaluating the performance and effectiveness of the policies and strategies and the monitoring process.
- Approving the corporate plan, action plan and the annual budget.
- Approving the annual reports, interim financial reports and annual financial reports.
- Ensuring the compliance with laws, regulations and basic good governance principles
- Overseeing the performance and interrelations of the Authority.
- Making decisions on expenditure capital investments. .
- Appointing the members to the boards of directors of the subsidiaries.

Secretary to the Board of management is the Director General of the Authority and his/her duties towards the board of management is as follows :

- Calling the meetings of the board of management, keeping the minutes of the said meetings, and registering the management papers in the relevant manner.
- Carrying out follow-up actions on the decisions made by the board of management
- Providing the information required by the board of management

The Board of Management has held 22 meetings in 2016.

The following reports and documents are submitted on monthly basis to the board of management in order that the board can verify whether the senior management and the staff have discharged the duties assigned to them in an effective and transparent manner.

- Financial and physical performance reports
- Operation statements
- Monthly cash flow statements
- Liquidity and debt level
- Statutory payments

Financial statements are submitted to the board of management on monthly and annual basis for supervising the financial state of the Authority. Further, monthly accounts reports are submitted to the Monthly Progress Review Meeting of the Ministry as well.

Audit and Management Committee.

Duties and Functions of the Audit Committee.

The main duty of the Audit Committee is to ascertain whether the financial reporting, risk management, compliance with internal control regulations and discipline are properly exercised. Cooperating with the Auditor General's activities is also a function of the Committee. The board of management has the power to appoint an internal control audit committee. In 2015 the committee has convened four times, and held one special meeting. The committee members are as follows.

- | | |
|-----------------------------|----------------------|
| 1. Mrs. Anoma Nandani | - Committee chairman |
| 2. Mr. T.D.S. Perera | - Committee member |
| 3. Mr. Sanath P. Panawenna | - Committee member |
| 4. Mr. E.K.K.S. EDirisinghe | - Observer |
| 5. Mr. R.G. Hettiarachchi | - Observer |

Generally, the audit committee meeting is attended by the Chief Financial Officer, Chief Internal Auditor and external auditor. On summoning by the Audit Committee, the heads of the other divisions as well attend the audit and management committee meetings.

Procurement committee

Two procurement committees namely, main procurement committee, and secondary procurement committee are in operation for the successful performance of the procurement process of the Authority in line with the Government Procurement Guidelines.

Training and Scholarship Committee

This committee, in a systematic manner, supervises local and foreign training activities of the staff with a view to developing the skills of the employees of the Authority. Seminars and training programmes are implemented by the human resource management division of the Authority under the supervision and on the recommendations of this committee. The committee comprises the officers of

the higher management of the Authority and the committee has convened on the occasion in 2015. The committee members are as follows :

- | | |
|-------------------------------|--|
| 1. Mr. Nayana Mavilmada | - Director General |
| 2. Mr. W.L.D.P.V. Jayawardene | - Deputy Director General (Finance) |
| 3. Mr. Mahinda Vithanarachchi | - Deputy Director General (Projects) |
| 4. Mr. W.A.S. Sumanasooriya | - Director (Human resource management) |

Assets verification

The assets under the control of the Authority are physically verified through the annual verification of the assets and the number of items in the stores is monthly verified. The reports thus prepared are utilized in re-ordering and disposing of the relevant items.

Financial revelations

It is the responsibility of the board of management to present the financial reports in a true and fair manner, and it is legally required to prepare such reports in conformity with the Sri Lanka accounting policies.

Internal control

Introducing a sufficient internal control system is the responsibility of the board of management and the relevant rules are strengthened by the Audit Committee.

Auditor General's Report



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } HUD/B/UDA/1/16/6
எனது இல. }

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உமது இல. }

දිනය } 28 January 2018
திகதி }

The Chairman
Urban Development Authority

Report of the Auditor General on the Consolidated Financial Statements of the Urban Development Authority and its Subsidiaries for the year ended 31 December 2016 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971

The audit of consolidated financial statements of the Urban Development Authority and its Subsidiaries for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

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

2. Financial Statements

2.1 Disclaimer of Opinion - Group

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

Disclaimer of Opinion - Authority

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

2.2 Comments on Financial Statements – Group

The following observations are made.

- (a) The consolidated financial statements of the Authority had been prepared based on unaudited financial statements the subsidiary companies, Urban Investments and Development Company, Waters Edge Ltd, Lanka Rest House (Private)

Company and Peliyagoda Warehouse Complex Ltd for the year 2016. Hundred per cent ownership of the above 04 companies had been vested in the Authority.

- (b) The assets valued at Rs.642.5 million had been vested in the Authority on a Court order, and as those assets have been used by the Waters Edge Company Ltd, the Authority has requested from the subsidiary Company to issue shares of the Company for the value of the assets. However, the shares had not been issued up to 31 December 2016. Although it was disclosed in the statements of financial position of the Waters Edge Ltd that there is a pending allotment of shares, the above company and the Urban Development Authority had not entered into a formal agreement. As well, a sum of Rs.200 million had been invested in the shares of the Company. Thus, a sum of Rs.842.5 million had been shown in the financial statements of the Urban Development Authority as investment of the Waters Edge Company.

2.3 Comments on Financial Statements – Authority

2.3.1 Limit the Scope of Audit Due to the Deficiencies in the Computerized Accounting System

Even though the deficiencies in the computerized accounting system of the Authority had been pointed out by audit since many years, the corrective actions had not been taken to rectify such deficiencies up to end of the year under review. Not developing the computerized accounting system based on double entry accounting principle, non application of accurate and systematic coding system for accounting, set off the balances in assets, liabilities, income and expenditure accounts against each other by avoiding obtain particulars of account balances, to identify the accounting data separately released to the audited financial year, unavailability of particulars to check the accuracy of balances shown in the financial statements and unable to obtain even a Trial Balance for the year, were the main deficiencies.

It was further observed in audit that the accuracy and acceptability of accounting data generated from the computerized accounting system had not been protected by introducing a proper security procedure and implementing a system thereon. Hence, due to the above deficiencies, the system had failed to provide the audit trails and as a result the scope of audit had been limited.

2.3.2 Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) Sri Lanka Financial Reporting Standard 07

- (i) Even though an entity should disclose information that enable users of its financial statements to evaluate the nature of influence and importance arising from financial instruments, adequate information relating to investments in Repurchasing Securities amounting to Rs.4,488 million and Fixed Deposits amounting to Rs.1,559 million had not been disclosed in the financial statements.
- (ii) Even though the loans amounting to Rs.37.62 million had been provided to implement Urban Development Sector Programmes, adequate disclosure thereon had not been made in the financial statements.
- (iii) The impairment loss of Rs.53 million that had incurred on the fair value adjustments made to the pre paid staff cost in accordance with the Sri Lanka Financial Reporting Standard – 07 had not been disclosed in the financial statements.

(b) Sri Lanka Accounting Standard 01

- (i) Even though the liabilities that should be settled within a year subsequent to the date of financial statements were presented the gratuity allowances amounting to Rs.3.2 million that should be settled within a year had not been shown as current liability in the financial statements.

- (ii) A sum of Rs.1,859 million given by the Ministry of Western Development and MegaPolise in the year 2016 as capital provisions for the use of various projects of the Urban Development Authority, had not been shown in the statement of changes of equity.
- (iii) The nature and maintaining objectives of Reserves should be disclosed in the financial statements. However, the maintaining objectives of the Contingent Fund amounting to Rs.55 million and Capital Reserves amounting to Rs.8.4 million shown in the financial statements of the Authority, had not been disclosed in the financial statements.

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

- (i) A sum of Rs.551.8 million which had been given by the General Treasury to the Authority for reimbursement of the debenture interest, had been adjusted to the changes in working capital, in the cash flow statement under the operational activities, instead of being shown under the financing activities.
- (ii) According to the financial statements, a sum of Rs.16,272,210 had been paid as gratuity payment to the employees during the year under review. However, according to the cash flow statement that payment amounted to Rs.17,519,171. Thus, a difference of Rs.1,246,961 was observed.

(d) **Sri Lanka Accounting Standards 17**

Adequate disclosures had not been made with regard to the differed lease rent amounting to Rs.19,940 million shown in the statement of financial position.

(e) **Sri Lanka Accounting Standard 23**

The interest expenditure amounting to Rs.1,705.83 million incurred on the debenture issued from the years 2010 to 2015 for the construction of apartment houses under the Urban Regenerative Project had been capitalized as borrowing costs. However, contrary to the requirements in the Sri Lanka Accounting Standard 23, the above capitalized borrowing cost had been set off against the funds received

from the Treasury amounting to Rs.2,759 million, to reimburse the debenture interest of the year under review and as a result the asset had been under valued by the amount of capitalized borrowing cost under the Regenerative Project amounting to Rs.1,705.83 million. As well, the remaining balance of Rs.1,053 million had been shown in the financial statements under the other income, as considering the reimbursement profit of the borrowing cost,

The reasons for the obtaining of excess funds from the Treasury to reimburse the borrowing cost and identifying the excess fund received from the Treasury as the income had not been explained to audit.

(f) Sri Lanka Accounting Standard 24

According to the audited financial statements of the Waters Edge Subsidiary Ltd for the year under review, a sum of Rs.5,438,553 should be received from the Authority. However, this related party transaction had not been disclosed in the financial statements of the Authority.

(g) Sri Lanka Accounting Standard 28

Even though the investment in two associate Companies amounting to Rs.128.8 million had been shown in the financial statements, adequate disclosure in respect of recognition of revenue/ not accumulating of income for the investments had not been disclosed in the financial statements.

(h) Sri Lanka Accounting Standard 37

- (i) Hundred per cent provision had been made in the year 2012 in respect of diminished value of the investment amounting to Rs.449 million in a subsidiary Company of the Peliyagoda Warehouse Ltd. Although that Company had started to earn the profits since the year 2013, action had not been taken to make re-adjustment to the provision.

- (ii) Due to not taking into consideration of cost of living allowances, when making contribution to the Employees' Provident Fund, a surcharge of Rs.60.5 million had to be paid from the year 2006 to July 2012 and the arbitration thereon was not concluded. Therefore, releasing of surcharge is doubtful. Thus, though a disclosure would be made under the contingent liability, it had not been done so. As well, a sum of Rs.6.5 million which should be paid by the Authority relating to the Employees' Trust Fund had not been accounted.

2.3.3 Accounting Policies

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

2.3.4 Accounting Deficiencies

The following observations are made.

- (a) The payable to the Department of Valuation amounting to Rs.261 million, with regard to obtaining of Government valuation for the land belong to the Authority had not been identified as a liability and accounted. As a result, the liabilities had been under computed by that amount and due to not making of adjustments to the unpaid expenditure in the previous years to the retained profit, the profits of the previous years had been over estimated.
- (b) According to the statements of financial position, the liability on the gratuity payments as at 31 December 2016 amounted to Rs.245.9 million and according to the Actuarial Valuation Report that amounted to Rs.242.2 million. However, the reasons for the difference had not been disclosed in the financial statements.
- (c) The National Security Levy and Goods and Services Tax amounting to Rs.36 million, which are not currently being charged, had been shown as state tax debtors in the financial statements, instead of being written-off from the books.



- (d) The Economic Service charge amounting to Rs.1,355,452 payable for final quarter of the year under review had not been accounted.
- (e) The disclosure in respect of 04 companies incorporated in the year 2014 and investment made in 4,000 shares as the initial capital, by the Authority, had not been made in the financial statements.
- (f) Two plots of land belonging to the Authority situated in Kolpity area, had been acquired by the Road Development Authority in the years 2010 and 2011 for the road construction under the Marine Drive Project. However, Action had not been taken to make the adjustments to the value of the Property, plant and Equipment, after being identified the accurate cost of the lands. Hence, the land value shown in the financial statements had been overstated.
- (g) On the self assessment basis, a sum of Rs.10,029,259 had been paid to the Department of Inland Revenue, after being identified the tax liability for the final quarter of the year under review. Interest on lease rents amounting to Rs.232 million had been removed, when computing the adjusted taxable profit considering it as other source of income. Whilst, the profit on land sales during the year under review amounting to Rs.104,041,994 and the profit on sale of fixed assets amounting to Rs.4,702,160 had not been deducted from the adjusted taxable profit as other source of income. Hence, when computing the tax on business activities on self assessment basis, the adjusted loss had been under computed by Rs.123,441,054.
- (h) The cost of 5 completed projects amounting to Rs.1,248.23 million had been shown as work-in-progress in the financial statements, instead of being capitalized.

2.3.5 Unexplained Differences

The following observations are made.

- (a) According to the financial statements of the Authority, the receivable amount from subsidiary Company of the Waters Edge Ltd amounted to Rs.4,000,000 whereas according to the audited financial statements of the Company, the payable amount to the Company by the Authority amounted to Rs.5,438,553. Thus, a difference of Rs.9,438,553 were observed between two balances.
- (b) A difference of Rs.93.8 million was observed between the 06 items shown in the financial statements and the detailed schedules.

2.3.6 Lack of evidence for Audit

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

Accounting Subject	Value (Rs.million)	Evidence not made available
(a) Investment Property	71,432	Detailed schedules, land Registers
(b) Local Government loans	647	} Confirmation of balances and detailed schedules
(c) Loans payable for lands, payable deposits and advances	21,156	
(d) (i) Revenue Accounts - 04	2,506	} Detailed schedules
(ii) Expenditure Accounts - 02	463	
(e) Land acquisition (Urban Regenerative Project about 58 acres)	-	- Supporting documents
(f) Arrears in staff loans	200	Detailed schedules, age analysis, details relating to the actions taken for recovering.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The receivables from 4 state institutes totalling to Rs.123 million had been shown in the financial statements of the Authority however, according to the information received from 2 institutions no payables to the Authority and as per the financial statements of the other 2 institutions, only a sum of Rs.2.5 million, to be payable to the Authority. As well, although a sum of Rs.40 million was shown in the financial statements as receivable from another public institution, the payable amount by the Authority to that institute amounted to Rs.52 million, as per the balance confirmations. Further, according to the financial statements of the Authority, the payable amount to two State Corporations amounted to Rs.69 million. Nevertheless, as per the financial statements of those Corporations, the receivable amount from the Authority amounted to Rs.393 million. Thus, the liabilities shown in the financial statements of the Authority can not be accepted. Accordingly, above receivables and payables had been become contentions balances and could not be accepted in audit.
- (b) The advances amounting to Rs.2,900 million which had been given to the contractors by the Authority for various Projects were remained as unsettled as at 31 December of the year under review.
- (c) The monthly rentals in arrears, utility charges, lease instalments totalling Rs.315.5 million were as at beginning of the year under review and out of that a sum of Rs.91.9 million or 29 per cent had only been recovered during the year under review.
- (d) Monthly rent debtors' balance amounting to Rs.55 million and lease debtors' balance amounting to Rs.19 million were unrecovered for over 5 years up to end of the year under review. As well, a sum of Rs.66 million to be recovered from the customers whose rental agreements voided due to rent in arrears up to 31 October 2016.



- (e) The Lump sum payments to be receivable from the lease out lands to 3 institutions on long term lease basis totalling Rs.119.14 million had not been received since long period of time. Out of that, the receivable amount from one institute had been older than 20 years.
- (f) Out of Rs.4,163 million received from the customers for various capital works, a sum of Rs.181 million had not been settled for over 5 years. Nevertheless, action had not been taken to settle that amount, after being identified the customers or to written back to the income.

2.5 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 and Regulations etc.	Non – compliance
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| (a) Section 5.2.6 of the Establishment Code of the Socialist Republic of Sri Lanka and Section 4.4 of Recruitment Procedure of the Urban Development Authority | According to Recruitment procedure, the Interview Board that appoint to give the promotion to officers should be comprised of 5 members. However, for some Interview Boards had comprised of 4 and 3 members. |
| (b) Financial Regulation 380 of the Democratic Socialist Republic of Sri Lanka | To open new current accounts, the Treasury approval should be obtained by the state Corporations and Statutory Authorities. However, to open an account in the National Development Bank, said approval had not been obtained by the Authority. |

(c) Companies Act, No. 07 of 2007

(i) Section 383

According to the winding-up procedure, a person who has within two years immediately preceding the commencement of the winding – up, been a director of the Company or of a related Company should not be appointed or act as a Liquidator of a Company. However, a Director of a Subsidiary Company had been appointed as the Liquidator of the winding up Company.

(ii) Section 330

In the event the winding-up continuing for more than one year, the Liquidator should summon a general meeting of the Company at end of the first year from the date commencement of the succeeding year or at first convenient date within the 3 months from the end of the year or such longer period as the Register will allow. However, a general meeting of the Company had not been held accordingly.

(d) Employees' Provident Fund Act, No.15 of 1958 and Employees' Trust Fund Act, No.45 of 1980

In the computation of contribution to Employees' Provident Fund and Employees' Trust Fund, the cost of living allowance should be taken into consideration and it had not been so done. As such, the arrears payable in respect of those funds for the period from the years 2006 to 2012 amounted to Rs.116,085,396.

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

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

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

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- (i) Management Services Circular No.39 dated 26 May 2009 Without having the recommendation of the salaries and cadre commission and the approval of the Department of Management Services, a monthly professional allowance of Rs.15,000 had been paid to Engineers, Architects, Lawyers, Accountants, Town Planners and Quantity Surveyors etc, of the Urban Development Authority with effect from 01 July 2014 and a sum of Rs.27,930,000 had been paid for that respect to 171 officers and a sum of Rs.25,605,000 had also been paid in the preceding year.
- (ii) Ministry of Public Administration and Management Circular No.05/2016 dated 09 March 2016
- Obtaining the approval of the Board of Directors of the Authority, transport allowance of Rs.80,000 and Rs.70,000 had been paid respectively per month to the Chairman and the Director General of the Authority, instead of being paid the allowable transport allowance of Rs.50,000 per month, contrary to the instruction given in the circular and without obtaining concurrence of the General Treasury. Accordingly a total sum of Rs.960,000 had been paid for the year under review.



- A sum of Rs.1,850,000 had been paid to 04 officers as vehicle allowances, up to end of the year under review whose posts were not included in the approved cadre and had been promoted without following the formal promotion procedure.
- (iii) Public Administration Circular No.14/2008 dated 26 June 2008 and Public Enterprises Circular No.PED/1/2015 dated 25 May 2015 Drivers had been provided for 23 officers who had drawn allowances by using private motor vehicles, and a sum of Rs.30,186,085 had been incurred by the authority as Drivers salaries and overtime allowances during the year under review.
- (iv) Public Administration Circular No.23/94 dated 17 June 1994 Maximum age limit for the recruitment to permanent posts of the Public Corporations and Statutory Boards is 45 years. Nevertheless, a female officer over 56 years old who had voluntarily resigned from the service of the Authority obtaining the retirement benefits, had reappointed to the post of the Director (Project Management). Further, she had been placed 15th salary step instead of being placed the initial salary scale of the post, and before lapse of 6 months, she had been promoted to post of Deputy Director General (Consultant).
- (v) Management Services Circular No.30 dated 22 September 2006 and Public Administration Circular No.06/2006 dated 25 April 2006 • A Performance based promotion scheme had not been introduced for the Authority and after placing 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 actions to grant promotions subject to a prior approval utilizing a proposed cadre composition.

- According to those Circulars, although it had instructed to inform the officers about marks allocation procedure when giving the promotions, it had not so done.

(g) Public Finance Circulars and Department of Public Enterprises Circulars

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

According to the circular instructions, the Public Corporations and Boards should keep their bank accounts only in the state banks. However, contrary to the Circular instructions, a bank account had been opened in a private bank, National Development Bank, and the funds receiving from sales of houses had been deposited in that bank account.

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

In recruiting of consultant, the approval of the Cabinet of Ministers should be obtained through the Minister of the Line Ministry. Nevertheless, without obtaining that approval, 12 consultants had been recruited and a sum of Rs.9,496,252 had been paid for them during the year under review and some of them released to the service of the Ministry. Further, the reports relating to

duties of the consultants had not been maintained and service period of some of the consultants had been extended year by year.

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

- Section 4.2.6

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

- Section 8.2.3

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

- Section 9.2(d)

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

- Section 9.14

The Authority should prepare a procedure relating to the Human Resources Management and get it approval and otherwise, provisions in the Establishment Code relating to Human Resource Management should be adopted. Nevertheless, action had not been taken accordingly.

- (iv) Circular of the Secretary to the Ministry of Finance and Planning No.116 dated 24 January 1997 and Section 9.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.
- Even though the officers of the Public Enterprises should not be released to the Ministry or other Public Institutions, 29 employees of the Authority had been released to other Public Institution contrary to that directions. Out of those employees, the payments made to 16 employees amounting to Rs.11,511,730 in the year 2016 action had not been taken to reimbursed.
- (v) Public Enterprises Circular No.01/2003 dated 3 January 2004
- Eight retired officers, over 60 years of age, had been recruited by the Authority and assigning them in various activities on the capacity of Consultants. Without obtaining the consent of the General Treasury, salaries and allowances ranging from Rs.27,000 to Rs.85,000 had been paid per month.
- h) Schedule V and Paragraph 7 Extraordinary Gazette No.1597/8 dated 17 April 2009 of Democratic Socialist Republic of Sri Lanka
- Even though the Project had identified 1868 unauthorized constructions and changes, actions had not been taken either to regularize them by charging fee for covering approval and a fee for changing the utilization, if they can be regularized or re-possess the land to the Authority.
- i) Planning Circulars No.8 dated 30 September 1987 and No.15 dated 18 November 1993 of the Urban Development Authority
- Some Local Authorities, decided as development regions, had not opened bank accounts in respect of deposit the service charges of the Authority.

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| <p>(j) Value Added Tax amendment
Circular No. SEC 2016/02 dated 29
January 2016</p> | <p>Actions had not been taken to transfer Value
Added Tax charged in excess from the capital
listed public company amounting to
Rs.9,278,763 for the period of 01 January
2016 to 13 January 2016 at the rate 12.5 per
cent to that company through a tax credit
Note.</p> |
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3. Financial Review

3.1 Financial Results

According to the financial statements presented, the profits of the Group and the Authority amounted to Rs.817 million and Rs.198 million respectively for the year ended 31 December of the year under review. As compared with the corresponding profit of the Group and the loss of the Authority for the preceding year amounted to Rs.320 million and Rs.133 million respectively. Thus, indicating a improvement of Rs.497 million and Rs.331 million in the financial results of the Group and the Authority respectively as compared with the corresponding financial result of the preceding year. Identification of funds obtained in excess amounting to Rs.1,053 million, to reimburse the capitalized debenture interest, had mainly attributed to improvement in the financial results.

In analysing the financial results for the year under review and preceding four years, except the loss incurred for the 2015, profits were earned for other years. When it take into account the employees' emoluments, depreciation on non-current assets and income tax re adjustments, the contribution of the Authority amounted Rs.1,425 million in the year 2012 and this was improved to Rs.1,927 million up to the year under review.

3.2 Working Capital Management

The current ratio of the Authority for the year under review and preceding year was 0.35:1 and the Authority had failed to maintained an optimal working capital. Although it had not changed the working capital ratio, current assets and current liabilities were increased by Rs.2,777 million and Rs.7,555 million during the year under review, compared with the preceding year.

3.3 Legal Proceedings Instituted by/ against the Authority

Due to the failure of the Authority to take appropriate measures and legal actions for the removal of encroachers from the land situated in Karapitiya town central, 2 acres and 32 perches in extent, that had been acquired by the Authority for the development, the encroachers themselves had instituted legal actions against the Authority to sue for removing of residences and conducting of development activities. The encroachers had obtain a interim injunction thereon and the immediate actions had not been taken by the Legal Division of the Authority to suspend the interim injunction by providing adequate information to the Court though it had been elapsed 4 years for the legal case. Also the effects for the rights of the Authority had not been furnished to audit.

4. Operating Review

4.1 Performance

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

- (a) According to the Progress report of the year 2016, 22 Projects scheduled to be implemented with an estimated cost of Rs.3,252.9 million had not been implemented.
- (b) Four Projects that scheduled to be completed at a cost of Rs.409 million during the year under review had been abandoned on the way.
- (c) The physical progress of 15 Projects of which scheduled to be completed as at 31 December 2016 at a cost of Rs.8,704 million were below 50 per cent.
- (d) Even though 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.

4.2 Management Activities

The following observations are made.

- (a) Two plots of land more than 3 acres in extend situated in Maradana and Rajagiriya had been transferred on long term leasing basis to 2 private institutes in the year 2014, the long term lease rents further receivable amounting to Rs.1998.7 million had not been recovered for those lands up to the date of this report.
- (b) The rent in arrears receivable from the residents in 11 housing schemes constructed by the Authority as at end of the year under review amounted to Rs.93 million. Out of that, the rent receivables from the residents in Sirisara Uyana and Muwadora Uyana housing Projects amounted to Rs.18 million and Rs.38 million respectively.
- (c) The utility charges amounting to Rs.1,932,056 receivable from 02 shops, Out of the shops constructed under the Balangoda Urban Development Project, were remained unrecovered for over 18 years and the utility charges amounting to Rs.2,685,860 had not been recovered for over 16 years from a rented shop belong to Panchikawaththa Road Project. As well the utility charges amounting to Rs.2,687,787 was in arrears for over 17 years receivable from 3 shops in Vella Vidiya-Colombo. However, actions neither been taken to recover the arrears, cancel the agreement nor repossess the ownership of the shops to the Authority.
- (d) Even though value Added Tax (VAT) and Nation Building Tax (NBT) had been recovered on Ex-tax basis from 06 leasing Projects, the VAT amounting to Rs.25.1 million and NBT amounting to Rs.2.24 million which should be remittanced to the Department of Inland Revenue base on the lease value, had not been recovered since 5 years.
- (e) Due to the lack of proper supervision when conducting the daily investment and operational activities of the Housing Project for public officers, more than Rs.5 million bank balances were existed in bank accounts. Therefore, some portion of the daily interest income that could have been obtained to the Urban Development Authority were lossed.

- (f) A sum of Rs.1,490.66 million that had been collected from the Public officers by installment basis for the purchase of houses from the public officers' housing schemes, had been invested in the Repurchasing Treasury Bills, instead of being invested in Fixed Deposits at a higher interest rates than the Repurchasing Treasury Bills. It was observed in audit that by investing the Fixed Deposits, it could yeiled 01 per cent of interest than the Repurchasing Treasury Bills, an approximate amount of Rs.14.9 million would have been lossed by Authority, only for the period of one year.
- (g) The shopping complexes which have been implemented by the Authority, such as Colombo Supper shopping Complex, Colombo Gold Centre, Floting Market Complex and pavement Park in Borella etc., were unsuccessful due to the reasons of the weaknesses in planning and inadequate customers etc. and up to end of the year under review 204 shops had been closed down. The Authority had not taken sufficient actions to reactivate those projects and to give large propaganda on those shopping complexes.
- (h) It had been agreed to grant the land located at Malabe, 296 perches in extent taken over by the Authority in the settlement of land, 158 perches in extent acquired in the year 2009 for the construction of a sports complex at Navinna, to that company owned the above land. However, it had been agreed to the owner of the land that had been set off without obtaining a valuation from the Chief Valuer for the land and a sum of Rs.55 million had been paid up 31 December 2016. Further, out of the interest payable amounting to Rs.34.41 million, only a sum of Rs.5 million had been paid up to end of the year under review.
- (i) A sum of Rs.104,209,943 remained in arriers by the end of the year under review due to failure of recovering fees from the houses which had been transferred to the householders by the Authority under the Urban Regenerative Project.

- (j) The Urban Development and Real State (Pvt) Ltd, the Urban Development Investment and Hotel Development Company, the Orchard Urban Housing Development Company and Water Edge Hotel Development Company had been incorporated as subsidiary companies of the Urban Development Authority on 21 November 2014 and following observations are made in this connection.
 - (i) The operation activities of those companies had not been commenced even up to end of the year under review.
 - (ii) Those Companies do not commence their business within a year from the date of their incorporation. Hence, in terms of Section 270(b) of the Companies Act, No.07* of 2007, said companies may be winding-up by the Court. Nevertheless, the Director Board had not made a decision in this regard.
- (k) The approval of the Director General had been obtained to cancel the rental ownership of the occupant at Maradana phase-I Project where the rent in arrears for over 17 years amounted to Rs.4,073,344. However, actions had not been taken either to cancel the said ownership or to prevent the accounting of monthly installment through the computer accounting system.
- (l) The Dabulla Shopping Complex scheduled to hand over to the Rangiri Dabulu Viharaya after 30 January 2012. However, as the Chief Incumbent of the Viharaya disagreed to the hand over, that decision had not been implemented. Since continuous evading the payment of rent, necessary actions should have been taken to cancel the agreements. Nevertheless, the Authority had failed to do so, and as a result, the opportunity to invest that premises in an alternative endeavour had been missed.
- (m) A shop owner of the Gunasinghepura Commercial Project passed away and the rent in arrears amounting to Rs.12,639,906 for over 16 years. Further, although the rent income of that shop owner has been identified through the computerized accounting system, actions had not been taken to suspend the accounting the rent income and managerial actions had not been taken to repossess the premises to the Authority.

- (n) Even though encroachments of near by satlers had been revealed from paddy land called Dhaatalaga and Doloslaga located in Talawathugoda (indicated in the Primary Plan No.5516 of plot 21), extent of 01 acres and 29.7 perches (189.7 perches) vested in the Authority in 1983, the Authority had not taken any action to repossess the land to the Authority.
- (o) Without being continued the suggested implementing process of Enterprise Resource Planning (ERP) System, the Authority had entered into an agreement with a Private firm to install and maintain an accounting software. Out of the total amount of Rs.8,300,000 payable to that firm, a sum of Rs.4,150,000 had been paid up to end of the year under review. However, although the installment of the Customized Accounting Software Package should have been completed within the agreed time period of 120 days, the computer software had not been properly installed and implemented even after lapse of 1 ½ years.
- (p) According to the financial estimates and directions given by the Cabinet of Ministers with regard to Urban Regenerative Project, the lands took over to the Project should be invested in the investment Projects in order to raise the funds. However, none of the land acquired by the Authority had been invested in the income generated projects and action had not been taken to prepare the business plans.

4.3 Operational Activities

A special Resolution had been passed at the Special General Meeting held on 31 July 2012 to voluntarily winding-up the Peliyagoda Warehouse Complex Ltd with effect from that date. However, even after lapse of over 4 years, actions neither being taken to winding-up the company nor the cancel the Resolution.

4.4 Transactions of Contentions Nature

The following observations are made.

- (a) A land belonged to the Authority, in extent of 2 acres, 2 roods and 21.4 perches, located adjacent to D.R.Wejewardana Mawatha Colombo Fort, had been rented out to a private company for 99 years on long term lease basis. According to the unnumbered letter of the Chairman dated 17 November 2016, it had been agreed to lease out the land below the estimated value of the Government Valuer by Rs.330 million and as a result the Authority had incurred a loss of Rs.330 million from the disposing of this land.
- (b) A special allowances, 1/3 of the basic salary, had been continuously paid during the last several years, to 50 officers comprised of entire officers of the Chairman's and Director General's offices and selected officers from other sections, without obtaining the Treasury approval. a sum of Rs.2,143,394 had been so paid for the year under review. As well the basis for the selection officers had not been explained to audit.
- (c) A Jeep, Toyota Land Criser, which had been purchased by a subsidiary company of the Authority, the Urban Development and Investment Company, for Rs.17,500,000 in the year 2014 had been used by the chairman of the Authority since the purchasing date. All the maintenance cost of the Jeep had been incurred by the Subsidiary Company even in the year under review.
- (d) The Canteen and Hall charges amounting to Rs.1,195,046 had been paid by the Authority in the year under review on behalf of the workshop conducted by a Project implemented under the Ministry of Western Development and Megapolice.

4.5 Uneconomic Transactions

The following observations are made.

- (a) Sums of Rs.92 million and Rs.120 million had been expended by the Urban Development Authority and the National Housing Development Authority respectively up to end of the year 1993 for the construction of 40 storied tower building (pordium) in a land, one acres and 23.1 perches in extent, belonged to the Urban Development Authority and located on Station Road Bambalapitiya. The shops had been constructed on 03 stories of the building (comprising 43,000 square feet) up to end of the year 1993. The Ocean View Development Private Ltd had been incorporated as joint venture of the Urban Development Authority and the National Housing Development Authority in order to rectify the deficiencies of the building and their maintenance and to acquire external lands for developments etc,. Although that private Company had earn the income from renting out the shops in the building, dividends had not been transferred to the Authority from the year 1993 to end of the year 2016. As well, without being charged long term rental, a nominal rent of Rs.100 per month had been charged from said private Company by transferring the property on 99 years long term lease basis. Hence, the Authority had not received any return on the investment.
- (b) An aggerage amount of Rs.6,642,865 had been paid by the Authority for inaugural ceremony of the construction of a science and technology city which was not affiliated to the functions of the Authority. Out of that, a sum of Rs.5,512,000 had been paid to the organizing firm of the ceremony and another sum of Rs.828,894 had been paid for newspaper advertisements.
- (c) No dividend had been received on the investments amounting to Rs.500,000 and Rs.36,309,841 made by the Authority in the Housing Development Finance Corporation and the Colombo Land Development Company respectively.

- (d) Construction of flats for the dwellers who were occupied in the land belonging to the Slave Island Redevelopment Project, had been given to a contractor by the Land Developer and the construction works scheduled to be completed during the year 2015. However due to the delays of the contractor, implementing of the project also was delayed. As the result, total amount of Rs.66,694,000 had been paid by the Authority as the additional consultancy fee of Rs.5,496,000 and monthly rental of Rs.61,198,000 for the dwellers occupied in the said land, until giving them flat units. However, the Land Developing Company had not reimbursed that amount up to end of the year under review.
- (e) Without being followed the procurement procedure, a consultancy firm had been selected by the Authority to obtain the service for establishment of Enterprise Resource Planning System. The estimated cost for the system amounted to Rs.195.7 million. According to the Consultancy service agreement, a sum of Rs.5,705,000 should be paid the selected firm. Out of that, a sum of Rs.3,803,995 had been paid as at end of the year under review. However, without implementing and operating the system, it had been abandoned.

4.6 Identified Losses

The stalls in the Charmas Greneries Project had been removed after being demolished in the year 2011 with a view to utilize them for another project and the rent receivable from those stalls as at end of the year under review amounted Rs.13,870,076. However, a new Project had not been commenced in the land up to end of 2016 and it had not been utilized for any investment activity.

4.7 Staff Administration

The following observations are made.

- (a) Fifty Seven officers had been recruited for 30 posts that had not been in the approved cadre of the Authority. The existence of 42 vacancies for 22 posts over the past several years relating to the senior, Executive and Management levels of the Authority and existence of 13 excess in the 8 posts had directly affected the performance of the Authority.
- (b) Three Managers and 04 Architectures who had worked under the Urban Investment and Development Company, a subsidiary Company of the Authority, had been released to the service of the Authority on Secondment basis. A sum of Rs.7,046,465 had been continuously paid to those officers as salaries and allowances over last 3 years up to end of the year under review. It can not be ruled out in audit that release of permanent officers of the company to the services of the Authority would be a hindrance to the activities of the Company.
- (c) An officer had promoted in an irregular manner to the post of Deputy Director (Land) without having the minimum required qualifications and without being complied with the promotion procedure.
- (d) Without being followed the formal procedures such as calling applications and conducting of interviews etc., 5 officers had been promoted to the posts of Director (Planning North and East) Director (Development Planning) Director (Land Development and Management) Director (Geographical Information Systems).
- (e) Without obtaining the approval of the Secretary to the General Treasury, in terms of Section 9.10 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, a new post, namely unite Leader, had been created and 05 officers had promoted to new posts. However, the formal procedures that should be followed to create new posts, had not been applied and promotions had also been granted without being adhered to regular procedures.

- (f) By amending the required work experience mentioned in the promotion procedure of the Directors, without obtaining the formal approvals, reducing the work experience required for lower level posts from 5 years to 3 years and work experience required for immediate predecessors in the post of the Deputy Director General from 7 years to 05 years, 07 officers had been promoted. Out of the above promotions, one officer had been promoted to the post of the Deputy Director General, particularly reducing the required work experience of the immediate post from 7 years to 3 years.
- (g) The following observations are made relating to the recruitments and promotions made by the Urban Regenerative Project.
- (i) By over stating the requirement of staff for the Urban Regenerative Project, the approval had been obtained from the Department of Management Services to recruit 217 staff members, instead of being obtained the approval for minimum requirement. Despite the facts that only 60 officers had enrolled on contract basis.
- (ii) Nineteen officers who are working in the Authority had been appointed to the Project activities. When appointing so, it had been created abnormal posts such as an Additional Project Director, 6 Deputy Project Directors, 04 Assistant Project Directors and 04 Project Managers etc.,. As a result, the staff cost of the Project had been increased.
- (iii) Instead of being recruited the officer who scored the high mark at the interview for the post of the Deputy Project Director (Project Management and Contract Administration), the second higher scored officer had been recruited to the above post without having reasonable a reason to do so.

5. Accountability and Good Governance**5.1 Corporation Plan**

Even though in terms of section 5.1.3 of the Public Enterprises Circular No.PED/12 dated 2 June 2003, the corporate plan prepared by the Authority for the years from 2013 to 2017 had not been up dated in the year under review.

5.2 Action Plan

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

5.3 Internal Audit

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 system and action had not been taken to strengthen the staff of the Internal Audit Division in line with widening of the functions of the Authority. The functions included in the annual audit programme had not paid an adequate attention on the performance audit of the Authority.

5.4 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 Enterprise as well.

- (a) Even though 128 cases of encroachments had been revealed from the land with 7.35 acres where the Waters Edge Company is established, the Authority had failed to take appropriate measures for the removal of encroaches.

- (b) According to the development plan of the Kandy Municipal Council's Region , the construction activities can not be done within the area of genional natural conservation zone. However, the clearance certificate had been issued by the Authority.
- (c) The 1 and plots No.6,7 and 8 marked in the plan No.කො 6399 located at Kotuwegoda Perera Mawatha, Rajagiriya had been transferred irregular to a private firm for the development on long term lease basis. Without being followed the general procedures, that land had been transferred by the former Director (Land Development and Management) in irregular manner.
- (d) According to the notified development plan for the Kandy Municipal Council Region, allowable ratio for the flow area of a house is 2.5. However, without considering the above ratio, the primary clearing certificates had been issued by central Provincial Branch of the Authority.
- (e) Even though issuing of building primary solution application by the Central Provincial Branch of the Authority had been rejected, the Director of the Province had taken actions to issue Primary Planning Solution Certificate.
- (f) Even though the bare land of 5.32 perches in extent with a higher market value adjacent to Nandarama Housing Complex and owned by the Authority had been encroached by an external party, the Authority had not taken any action to repossessed the land.
- (g) The Authority had not taken actions to make use of 11.44 acres of lands that had been vested in the Authority by the Divisional Secretariats of Colombo and Badulla Districts, in development activities.
- (h) Non utilization of the alternative trade centre constructed for road hawkers at a cost of Rs.16 million in the year 2002 at Saunders Place in Pettah.



- (i) Out of the value of Rs.406,483,000 order to pay on a Court Decision, on behalf of Waters Edge Hotel encrusted to the Authority in the year 2008 further action had not been taken to paid a sum of Rs.261,453,000.
- (j) A sum of Rs.207,331,767 had been retained by the Authority without being remitted to the Urban Settlement Development Authority (USDA) in terms of Section 16(i)e of part II of the Urban Settlement Development Authority Act, No.36 of 2008.
- (k) Even though the shopping Procurement Procedure can be applied only for the procurement value below Rs.5 million, the shopping procurement procedure had been applied to procured of capital goods for the rehabilitation of Colombo-Race Course valued at Rs.40.64 million and to Proceed of goods related to other projects valued at Rs.72.36 million..
- (l) 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 Maura Place, Wellawaththa and sale of debris respectively. However, the Authority had not assigned the task to contractors, instead the building had been demolished by incurring funds of the Authority amounting to Rs.6,296,440 and debris had been sold for Rs.750,000, thus causing a total loss of Rs.17,746,680 to the Authority.
- (m) As boundaries had not been marked, security fence lines had not been evicted properly around the land, 103 perches in extent valued at Rs.85 million, located of Madiwala, external parties had encroached those lands, by constructing permanent buildings, and cultivating perennial crops.
- (n) According to the decision of the Board of Directors No.229/2014 dated 26 August 2014, action had not been taken to obtain the ownership of the motor vehicles belonged to the subsidiary company of Peliyagoda Warehouse Complex Ltd.



- (o) The Authority had issued Rs,10 billion worth of debentures in October 2010 redeemable in 5 years with the objective of collecting funds for national programme, which had not complied with the objectives of the Urban Development Authority Act, on the construction of 68,000 houses for the shanty dwellers in the city of Colombo. However, actions had not been taken to development of 142 acres of land in the city of Colombo and preparation of a business plan in that connection according to the objectives of issuing the debentures, even after lapse of 5 years. As well, only 5203 housing units had been constructed and handed over to the General Public, out of the proposed housing units of 68,000.,
- (p) The approval of the Authority had been granted for the construction of 5 storied building including under ground flow in a unqualified land situated in the Region of Borelasgamuwa Urban Council area, contrary to the Extraordinary Gazette No.392/09 dated 10 March 1986 of the Democratic Socialist Republic of Sri Lanka.
- (q) Even though a service charge of Rs.6,081,048 should be charged to issue the building plan clearance certificate for a building 1126.12 square meters in extent and belonging to the Central Region, that certificate had been issued without being charged.
- (r) The following deficiencies were observed relating to the Urban Regenerative Project:
- No actions being taken to take over the lands about 24 acres in extent related to 10 housing schemes.
 - The construction contract had been a warded contrary to the Government Procurement Guidelines and the construction contract, the value of Rs.20.8 billion had been awarded as unsolicited proposals.
 - Abandonment of the projects carried out under the Urban Regenerative Project.

- A sum of Rs.222 million had been incurred for the bank guarantees, commissions and legal services in an idle manner.
- An additional cost of Rs.2,098 million had to be incurred for 65 housing units, a sum of Rs.1,066 million had been over paid for variation orders issued on 13 contracts, a sum of Rs.143 million had been paid in excess on behalf of 39 housing units.
- Failure to recover the rent receivables to the Authority in regular manner due to the lack of rent agreements.
- A programme had not been implemented to carry out the maintenance activities of 5,203 flat housing units.
- A loss of Rs.137 million had been incurred due to transferred of 157 units of houses to the Colombo Municipal Council and due to giving of 205 units of houses to the employees of the Railway Department, those who had occupied in Railway houses, on permanent basis. Hence, it had unable to give the houses to the new employees.

5.5 Environmental and Social Responsibility

The following observations are made.

- (a) To identify the unauthorized constructions and to take actions thereof, the timely investigations had not been carried out by the Investigation Division of the Authority.
- (b) Four thousand nine hundred and thirty seven houses, constructed under 9 flat housing projects of the Urban Regenerative Project as at end of the preceding year had been vested in occupants. However, to establishment of Management Committees comprising with the occupants of those houses, in order to carried out maintenance activities and management functions of those housing schemes, regular authority had not been handed over to the Condominium Management Authority.

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 arrears of control.

Arrears of Systems and Controls	Observations
(a) Accounting	(i) In preparing of final accounts, the information relating to the Authority and Subsidiaries, had not been correctly coordinated and the subsequent adjustments made through the journal entries had not been correctly updated. (ii) Many Account Code Numbers had been shown in the Trial Balance relating to the debit and credit balances of the same account and existing of many prior year adjustments. (iii) Due to the weakness in the computerized accounting system, scope of the Auditors had been limited.
(b) Control of Debtors and Creditors	(i) According to the balance confirmations, there were contentions disagreements about the accuracy of the balances. (ii) Delays in updating of the debtors' accounts and not submission of debtors' age analysis. (iii) Proper actions had not been taken to recover the receivables from debtors.



(c) Budgetary Control

Not preparing of rational estimates and incurring of expenditure had been done without having a budgetary control.

(d) Assets Management

Existence of under utilized assets, the assets had not been correctly documented, assets verification reports had not been kept properly, not made available of Land Registers.

(e) Procurement Process

There were some instances deviating from call for competitive bids.

(f) Human Resource Management

Giving Promotions and enrolments had been done without following the procedures, and the plans had not been prepared to recruit for existing vacant posts.

Sgd./ H.M. GAMINI WIJESINGHE
Auditor General

H.M.Gamini Wijesinghe
Auditor General

*Chairman's comments on
the Audit Report*

2.2 Comments on financial statements - Group

(a) Observation

The consolidated financial statements of the Authority has been prepared based on the draft financial statements of those establishments because at the time of preparation of the 2016 annual accounts, auditing of the financial statements of the Urban Investment Development (pvt) Ltd., Waters' Edge Ltd., Lanka Rest House (Private) limited and Peliyagoda Ware House complex ltd. had not been completed.

However, on receiving by this Authority the audited financial statements of the Urban Investment Development (pvt) Ltd., Lanka Rest House Ltd. and Water's Edge Ltd. such statements has been submitted to the General Audit Division on 20.07.2017. Financial auditing of the Paliyagoda Ware House Ltd has not been completed yet and once such audited reports are received by the Authority, the same will be submitted.

(b) Observation

On a court order, this was vested in the Urban Development Authority by the then Asia Pacific Golf Course Ltd. and the Water's edge Ltd was established to carry out its operations. Since at the time of establishing the said company only a share worth Rs.10 had been issued, the relevant value had been correctly entered in accounts. Subsequently, a request has been made as per the approval of the board of management of this Authority, to issues shares in place of the sum of Rs.642.5million due for the Authority in respect of vesting the buildings owned by the Authority in the Water's Edge Ltd. and in lieu of the sum of Rs.200 million provided to carry out its repairs. Accordingly, the aggregate sum of Rs.842.5 has been recorded in the accounts of the Urban Development Authority and the Water's Edge Ltd. by means of a temporary shares allocation account.

The re valued assets of the Water's Edge Ltd has been correctly indicated in the accounts of the subsidiary company.

2.3 Comments on the financial statements – the Authority

2.3.1 Limitation of scope of audit

(a) Observation

This statement cannot be agreed with. All transactions carried out by the Authority have been recorded in the previous computerized accounts system, using the double entry method. Currently, this same process is carried out using the new computerized accounts system. The function of the double entry with regard to each of the transactions can be retrieved through the computerized system by searching under the document number (the voucher No., receipt No., Journal entry No.) of the base document used for making the accounts entry.

(b) Observation

Further to the answer to 01 above, I would like to point out that it is for the purpose of satisfying a requirement of the previous accounting system that two account numbers have been created in respect of each of the debtor's account and creditor's account. It can also be

pointed out that although two account numbers have thus been utilized, the entries have been made in accordance with the double entry method.

It is further informed that this situation has been taken in to consideration in introducing the new accounting system. Accordingly, attention has been paid towards using one account number instead of the currently used accounts numbering system regarding debtor's account and creditor's accounts.

(c) Observation

In formulation of the computerized programme of the accounting system used by this Authority at the beginning, there was a need for using 2 account numbers for the account number range chosen for debtor's account and creditor's accounts. Accordingly, 2 account numbers have been utilized in formulating the system facility for retrieving the balance. However, at the end of a certain accounting period, the balances under both accounts have been used in preparation of the final accounts.

In introducing the new computerized accounting system, this complexity of having to utilize two account numbers has been taken in to consideration, and the said new system has been planned to be formulated in a way that minimizes the said complexity.

(d) Observation

Accounting entries on payments related to the liability accounts, journal entries made for correction of account entries could be entered as credit balances of the respective account. Such entries are not used in the accounting process.

(e) Observation

The accounting system thus used by the Authority has been established for the use of the Authority in around 1983, and to a considerable extent it has been updated. However, due to the difficulties faced with this computerized system in generating reports and making corrections, currently a new accounting system is being developed. It is further informed that action has been taken in the development of the said system to remove the account numbers currently not in use.

(f) Observation

These account balances show the entries made under the code of Miscellaneous Customers without entering the Customer Code of such customers, in recording the receipts from and making payments to such customers. However, it is kindly informed that since relevant tallying is being currently carried out in this regard, action will be taken to keep account records under the correct customer codes after checking the primary documents.

(g) Observation

This statement cannot be agreed with. By entering the required period correctly in the previous computerized accounting system, all details related to the required year can be retrieved. However, the new computerized accounting system is in the final stage of its

development, and once successfully completed, arrangements will be made in order that the General Audit also can utilize the same for carrying out its auditing.

(h) Observation

It is further informed that after putting the new computerized accounting system in to practice, the accounting activities can be carried out in an efficient and precise manner. A systematic process has been initiated to avert the weaknesses in the computer system of the said institution, and thereby the break-downs in the said system will be minimized.

(i) Observation

This statement cannot be agreed with. The previous computer system used by the Authority did not have facilities for preparation of the final accounts, yet it offered the facility for retrieving the trial balance. Further, security measures have been made in order that the data entered to the computer system cannot be changed. Therefore, it is further informed that the data existing in the previous system are correct.

Except in the book keeping section, the new accounting system is successfully in operation in all sections (income, payments and cash book) of the Accounts Division under the guidance of the respective section heads. Operations of the system related to retrieving the reports required by the book keeping section are being developed. Thus, the new system will be capable of generating final reports.

2.3.2 Sri Lanka Accounts standards

(a) Sri Lanka Accounts standards 01

Observation i

Action has been taken to furnish the audit division with all calculations and details related to the above adjustments. If further disclosures required in this regard, action will be taken to provide such details to the audit division.

Observation ii

It is not, as indicated in your audit query, under the Sri Lanka Accounts Standards-01 that payment of interest on debentures, interest on the short-term investments of the money received from such debentures, reimbursement of the interest on the debentures, have been recorded but under the Sri Lanka Accounts Standards -23 of Cost on Loans. Accordingly, it is on its net value that the cost on loans can be capitalised. Thus, the income exceeding the cost on loans has been recorded under other incomes. .

Observation iii

The bonus amount Rs. 3,266,648 payable in the year after the year under review has been separately recorded under the journal No. J25482.

Observation iv

It is as a reimbursement of the cost incurred by the Authority for the various projects to be implemented by the Authority on behalf of the Ministry of Mega polis and Western Development that

the said Ministry has provided the Urban Development Authority with the amount Rs. 1,901,237,825 indicated in the audit query. The Authority has recorded the said amount under the Customer's Deposits (6605).

Also, the statement of change of ownership indicates the transactions that have an effect on the ownership of the owners of a particular business or institution. E.g. Change of capital, effect of the net profit or net loss.

Observation v

An allocation of Rs.55 million has been made in the final accounts in 1997 in respect of the contingency liabilities that could occur in acquisition of lands by the Urban Development Authority. The said allocation has been deducted from the accumulated loss and indicated in accounts under contingent allocations. Also, disclosures in this regard have been made in accounts notes from the 1997 to 2010.

In winding up of the Urban Development Sectors Project which was under this Authority, the assets and liabilities of the said project have been transferred to this Authority, and on this occasion, this reserve that existed under the said project has been recorded as a reserve account of this Authority.

However, it is kindly informed that action will be taken to obtain the approval of the board of management regarding further maintaining of these reserves and accordingly, the due adjustments will be made to the accounts.

(b) Sri Lanka Financial Reporting Standards 07

(i) Observation

The relevant disclosures on the financial investments have been made under accounts notes 1.3.3 (iii), and all details regarding the amortized values based on the effective interest rates have been submitted for the auditing.

(ii) Observation

As indicated under accounts notes No. 1.3.3 (iii), financial investments have been recorded in accounts based on the effective interest rate. Also, then if the effect that is produced when adjusting the interest income to the amortized value becomes an impairment loss that should be adjusted to investment assets under interest income, it has been indicated that such impairment loss is adjusted to the income statement as "impairment loss of investment assets"

Accordingly, according to the adjustments made as at 31.12.2016, when amortizing investment interest income based on effective interest rates, the adjustment of Rs.1,897,987 has been correctly recorded in accounts under interest income, and it is informed that there is no impairment loss that should be adjusted to investment assets.

(iii) Observation

As per the minutes of the meeting held with the Deputy Secretary to the Treasury on 22.12.2016 regarding recovering of the outstanding loan balances, this sum of loan was decided to be written off on the approval of the Cabinet of Ministers. Accordingly, a Cabinet Memorandum bearing No. CP17/2245/724/094 dated 04.10.2017 was submitted seeking approval for writing off the loan balances receivable from the local government institutions

(iv) Observation

This statement is not agreeable.

In line with the accounting policy followed by this Authority, interest income and loan outstanding due as at the end of the accounting year, relating to the employee loans have been recorded in accounts according to the current value based on the effective interest rates. Accounting policy on impairment losses has been revealed under accounting notes No.1.3.4.

(c) Sri Lanka Accounts Standards 16

Observation

Steps will be taken to obtain relevant detailed information and examine its legal situation, and thereupon, should accounting disclosures are required, action will be taken in that regard in due course.

(d) Sri Lanka Accounts Standards 17

Observation

Accounts disclosures on Deferred Lease Rent have been made under financial statement notes No. 1.3.9 and 26. If further accounts disclosures are required in this regard, action will be taken in that regard in due course.

(e) Sri Lanka Accounts Standards 18

Observation

Accounts on the income from the services rendered have been kept on cash basis as the Authority records its accounts on such income based on the service rendered and the completion of the service, excluding the income from electricity and water bills and management fees.

In order to recover the extra debit payable by the Authority as the Nation Building Tax on its income, the board of management of the Authority had decided on 12th of May, 2009 to include in the particular income the extra debit incurred by the Authority in payment of the said tax. According to the regulations of the Department of Inland Revenue, if the receivable income is thus increased, the said increased amount is also counted as part of the particular income. Therefore, the Nation Building Tax included in the monthly rental and lease rental income was also considered as part of the income and was added to the income of the year under review, as was done in previous years. In payment of the Nation Building Tax to the

Department of Inland Revenue, the said tax was paid at the rate of 2% on the said total income. Therefore the income has been overstated by a sum of Rs.55,858,753/-

(f) Sri Lanka Accounts Standards - 23 (LKAS 23)

Observation

This statement is not agreeable

Cabinet approval had been given to obtain a treasury guarantee on the paying back of the capital and the interest related to this debenture issues, and the Treasury had agreed to reimburse the interest value on the said debentures, amounting to Rs. 3,291 million, within the three-year period in which this housing project is constructed and the Urban Development Authority starts to receive commercial income from those projects. Accordingly, approval had been obtained through the above Cabinet Memorandum to estimate by the Treasury the amount of provision required for the Urban Development Authority and provide the same through the annual budget. However, out of this due amount, a sum of Rs. 532 million had been provided to the Authority in 2011, and following several requests made to the Treasury, the Treasury had agreed to reimburse the balance amount of Rs. 2,759 in 10 installments.

At the beginning of 2016, the Authority had paid a sum of Rs. 5,486 million as interest on debentures and, after receiving a sum of Rs. 3,529 million as interest income through investment of this debenture money and after receiving a sum of Rs. 532 million from the Treasury in 2011, a sum of Rs.1,705 as net interest on debentures had been capitalised under the Urban Regenerative Project as the cost on loans up to then.

After receiving the balance interest sum of Rs. 2,759 from the Treasury in 2016, action has been taken to correctly adjust accounts records on the sum of Rs. 1,705 that had been capitalised under the Urban Regenerative Project as cost on loans. Therefore, it is not correct to state in your query that the assets have been under calculated.

(g) Sri Lanka Accounts Standards - 24

Observation

The sum of Rs. 5,438,553 /-recorded in the accounts of the Water's Edge Ltd as a cost to be recovered with regard to providing catering facilities to the Urban Development Authority on different occasions should be revised to be correct as Rs. 6,113,490.52/-. This amount has been correctly recorded in the accounts of the Authority under debtors payable.

(h) Sri Lanka Accounts Standards - 28

Observation

Announcing of dividends with regard to investment of shares is decided based on the profit earning of the relevant companies and other relevant aspects related to the particular year, and the management of the Authority will look into the situations with the companies that do not make such profits and will take suitable action regarding them in the future.

However, an accrual on dividends is made in the financial statements of the Authority, only if the subsidiary companies had issued dividend statements for the year under review. Sri Lanka Accounts Standards 28 does not state it is compulsory to make an accrual on dividends.

(i) Sri Lanka Accounts Standards 37

(i) Observation

This allocation has been made as a precaution against the possibility of losing the investment the Urban Development Authority has made in the Peliyagoda ware house complex ltd. Although the Peliyagoda warehouse complex ltd. started to make profits from 2013 onwards, it was continued to make the said allocation in accounts, as a measure to save the relevant investment amount in recovering the possible contingent liabilities that may occur at the time of liquidating the company.

However, since the board of management of the Authority has given approval for liquidation of the Peliyagoda Ware House Complex Ltd. with effect from 31.07.2017, account adjustments in that regard will be made in the final accounts for the year 2017.

(ii) Observation

Several sessions of discussions have been conducted with the Employees Provident Fund to have released the surcharge imposed on the Employee's Provident Fund payment arrears pertaining to the period from 2006 to 2012. The matter was later referred to the Authority in 2017.

However, it was not possible to have this surcharge released, it was agreed to make the relevant payment in 10 installments. Accordingly, it is kindly informed that at present no liability exists in that regard.

(j) Sri Lanka Accounts Standards 40

Observation

In keeping accounts on the assets invested by this Authority, accounts on fixed assets have been kept as at 01.01.2011 following the Deem Cost method in accordance with the Sri Lanka Accounts Standards 01. Accordingly, as at the said date and in line with Sri Lanka Accounts Standards 01, all invested assets have been recorded in accounts under the accounts on invested assets, by valuing the value of such assets according to their fair Value.

Also, according to the Sri Lanka Accounts Standards 40, it is possible to keep account records either on the basis of cost or on the basis of fair value. The clarification regarding this has been made in account notes from No. 1.3.5 to 1.3.8.

Accordingly, it is informed that the accounting policy followed by the Authority in recording the invested assets in accounts conforms to Sri Lanka Accounts Standards 40

2.3.3 Accounting deficiencies

(a) Observation

There is a contradiction between the reports submitted to this Authority by the Department of Valuation regarding the fees payable by the Authority for obtaining valuations of the lands

belonging to the Authority, and such reports submitted by the said Department to the General Audit division. Also, no reference has been made to the file numbers or reference numbers of this Authority to facilitate identification of the said payable amounts.

Accordingly, a document with correct details related to the payable amount requested by the said Department has been requested and it is kindly informed that once such document is received, action will be taken to keep relevant account records after verifying the accuracy of the same.

(b) Observation

In accordance with the Sri Lanka Accounts Standards 07, employee loans and interest income have been adjusted on the declined value method. Accordingly, correct adjustments have been made regarding the employee loan accounts, in accordance with the Sri Lanka Accounts Standards 07 (details of the relevant calculation has been given for auditing) . it is kindly informed that it is incorrect to state that employee loan accounts have been over counted in the said adjustments.

(c) Observation

As stated under chapter 02 of the Nation Building Act No.09 of 2009, every individual shall remit, as per the tax rates given in the Act, Nation Building tax money to the Department of Inland Revenue.

Since it has not been clearly indicated in the said Act whether the said tax can be shifted to the customers or not, on inquiring the Department of Inland Revenue in that regard it was informed that the Act does not state as to whether the same can be done and was informed that if the said tax is levied from the customers, it should also be considered as a part of the income.

Accordingly, with the approval of the board of management, action has been taken to raise the income to cover the additional cost incurred by the Authority due to the Nation Building Tax, and action has been taken to record such income under a separate account in order that the same can be identified apart.

Also, although the value of nation Building tax receivable on monthly rent income and lease income have been under the respective debtors, separate account numbers have been used in that regard.

(d) Observation

Above answer is applicable

(e) Observation

This value shows the room charges charged by the circuit bungalows operated by this Authority. This value is indicated under No. 4534 and 4535 of the trial balance. No transaction has taken place under account No. 4321.

(f) Observation

Action has been taken to record this sum of money, which was agreed to be provided by the General Treasury, in accounts under debtors, and this receipt of money has been recorded in the cash flow statement under the increase and decrease of the debtors' accounts.

(g) Observation

This value indicates a correction of an account record which had been recorded in accounts as a purchase of assets when making payments for assets, and which had been purchased in 2015 and had been recorded in accounts as accrued payments.

(h) Observation

Current value is not calculates in respect of gratuity payments, and the Standard indicates an assessment made using an assumption related to economics and demography for assessment of the future liability, and these assumptions are based on statistical studies and experiences and judgments.

In preparation of the actuarial value report, retirements, recruitments, assessment reports about the employees in service are taken in to consideration.

This value indicates arrears gratuity payable to a few retired employees, and in preparation of the aboveactuarial value report, it was pointed out that this value cannot be taken in to consideration in preparation of theactuarial value report.

(i) Observation

This value indicates arrears tax due to be recovered from the rent debtors and lease rent debtors in respect of the tax that was locally effective during the period. Action will be taken in future to look in to the possibility of recovering this money and following the same to write off from the accounts, if necessary.

(j) Observation

In 2017, the judiciary has delivered agreement with regard to payment of surcharge on employees' provident fund in 10 installments. Accordingly, these installments are paid from 2017 onwards. Keeping accounts of this sum of money payable has been carried out in 2017.

(k) Observation

The extent of 85 perches situated in Depanama, out of the extent of land under reference has been identified as an open area of the land allocated for construction of houses for the Attorney General's Department. It is wrongful to estimate the said land for a value of Rs. 51 million and show the same in the books of the Authority because according to the development regulations, such areas allocated as open areas are the areas reserved for public purposes. These open areas should be transferred to the respective local government institutions (Maharagama Urban Council) and this has not been carried out yet and action will be taken to transfer these open areas to the Maharagama Urban Council.

(l) Observation

As, when the economic service charge is paid, accounts regarding this payment is kept as a tax that can replace the income tax due for the relevant year, that amount was not separately kept in accounts as a sum payable to and receivable from the Department of inland Revenue.