Urban Development Authority and it's subsidiaries - 2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial consolidated statements of the Urban Development Authority ("The Authority") and its Subsidiaries ("The Group") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income , statement of changes in equity and cash flow statement and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion except for the effects of the matters described in paragraph 1.5 of this report the accompanying financial positions of the institute as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for qualified Opinion

I expressed qualified opinion on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per sub Section 16(1) of the National Audit Act No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

  The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the Authority, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;

- Whether the Group has performed according to its powers, functions and duties; and

- Whether the resources of the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit observation on the Preparation of Financial Statements

1.5.1 Non – Compliance with Sri Lanka Accounting Standards/Sri Lanka Financial Reporting Standards

	Non Compliance with Relevant Standards	Comments of the Management	Recommendation
(a)	If the cost of the assets can be reasonably determined at the time when future benefit from those assets are expected, the relevant assets should be capitalizing as per the paragraph 7 of Sri Lanka Accounting Standards -16 and although as per paragraph 55 thereof depreciation should be calculated from the date of use of assets, 19 projects worth Rs. 818.27 million which were recorded as work in progress as at 31 December of the year under review had been completed as at 31 December 2022. But those assets property plant, completed houses or investment properties had not been accounted for accordingly. As a result, non – current assets had not been accounted for properly and depreciation had not been calculated in relation to those balances, resulting in overstatement of the profit for the year under reviews.	Actions will be taken to show the values related to these projects, which were accounted for as work in progress under the correct classification.	Assets should be accounted for and the correct classification as per Accounting Standards.
(b)	If an asset unit is revalued, the entire asset class related to it should be revalued as per the paragraph 36 of Sri	Taking in to account the need to revalue the entire assets class in accordance with	The entire asset class should be revalued in accordance with

	Lanka Accounting Standards 16. However, 07 motor vehicles received as donation by the Authority during the period 1998 – 2012 had been revalued at Rs.25.15 million in 2022, but the remaining cost of 43 vehicles worth Rs.66.1 million had not revalued in the relevant year, so the motor vehicle value consisted of both cost and fair value.	Accounting Standards, the necessary adjustments will be made correctly in the financial statements for the year 2023.	Accounting Standards.
(c)	As per paragraph no. 51 of the Sri Lanka Accounting Standards No. 16, the useful life and scrap value of an asset should be reviewed at the end of each financial year and if the expected useful life and scrap value are different from the previous year, it should be taken to action in accordance with the Sri Lanka Accounting Standard No. 8 Accounting Policies, the useful life of the assets fully depreciated and had a current cost Rs.1,067.04 million should have been reviewed and adjusted in with Accounting Standards.	Identifying assets that have been fully depreciated but are still in use and reviewing the assets useful lives of those in accordance with Sri Lanka Accounting Standards, the relevant adjustments will be made in the coming accounting year.	The useful life should be reviewed and necessary adjustments made in accordance with Accounting Standards
(d)	Although as per the paragraph 12 of Sri Lanka Accounting, Standards 36, if there are any indications of impairment of assets, impairment tests should be performed for the relevant balances, the unfinished value 09 projects that had been amounting to Rs.102.23 million, has been carried forward consistently in the financial statements under the work in progress account since 2018, but no impairment test had been performed on those unfinished works as of the date of this report.	The impairment test will be conducted for these projects and the relevant adjustment will be made in the 2024 final accounts.	An impairment test should be performed on work in progress in accordance with Accounting Standards
(e)	As per the paragraph 9 (c) of Sri Lanka Accounting Standard No. 40, the circuit bungalows which cannot be considered as investment property used by the Authority and the 02 circuit bungalows with a value of Rs.493.55 million and 03 land proposed build the bungalows had been accounted as investment property.	The value of these properties will be recorded in accordance with the provision of the Accounting Standard, considering the current use, hypothetical use and the market condition of these properties.	The accounting should be carried out in accordance with the Accounting Standard.
(f)	According to Sri Lanka Financial Reporting Standards No. 15, the income	The Authority does not follow a system for separately	Actions should be taken to separately identify income

	Audit Issue	Comments of the Management	Recommendation
	and expenditure related to the client projects of the Authority had not been recognized separately. Instead, the total expenditure amount Rs. 3,883.8 incurred on solid projects by the Authority up to end of the year under review deducted from deposits received from customers amounting to Rs.6,473.1 and the remaining balance Rs.2,589.7 was presented as current liabilities under note 33.4 of the financial statement as deposit and advances at the end of the year under review. As a result, the profits or losses arising from the projects could not be identified in accordance with the requirement of the standard in relation to each project and the liabilities had not properly represented.	recognizing revenue related to client project or separately recognizing profit or loss arising from the client project as per the Sri Lanka Financial Reporting Standard No 15.	and expenses related to client project as per the Financial Reporting Standards.
(g)	Although cost of assets purchase under lease hold should be recognized in the right use assets account as per paragraph 22 of Sri Lanka Financial Reporting Standard 16, 28 motor vehicles purchase under finance lease arrangement for a period of 5 years in the year 2020 valued at Rs. 255 million had been included in the value of Motor Vehicles of Authority under property plant and equipment in Financial Statements.	The necessary actions will be taken to accurately reflect the right of use assets account in the financial statement for the year 2023 as per the Sri Lanka Financial Standards.	Accounting should be carried out in accordance with Financial Reporting Standard.

1.5.2 Accounting Deficiencies

	Audit Issue	Comments of the Management	Recommendation
(a)	The asset balance in the financial statements had been understated due to the fact that 381 asset items received as donations from various parties during the period 2017 – 2021 and 389 asset items received in the year 2022 had not been measured at fair value in accordance with Sri Lanka Financial Reporting Standards No 13 and had shown as zero in the fixed assets register. Also the profit had been overstated due to the non- depreciation of those assets.	These assets will be measured at fair value and adjustments will be made in the 2023 financial statements.	Assets received as donations should be measured and accounted for at fair value over time in accordance with Financial Reporting Standards.

(b)	Although, the Authority had identified a lease value of Rs. 154.12 million as at 31 December 2022 of 28 vehicles purchased under the finance lease method in the year 2020, it had not been accounted for in accordance with Sri Lanka Financial Reporting Standards 16.	The Authority has shown the lease liability for the 28 vehicles purchased under the financial lease scheme in the year 2020 in the accounts up to 31 December 2022 in accordance with Sri Lanka Accounting Standards No. 17 and the Authority will take actions to correctly present the lease liabilities in the annual accounts ending 31 December 2023.	Lease liability should be accounted for in accordance with financial reporting standards.
(c)	The Authority had not recognized taxes in the financial statements in accordance with the provisions of the Inland Revenue Act No. 24 of2017 and although a loss of Rs.1,180.46 million was reported on a tax basis as per the draft financial statements for the year 2022 a profit of Rs.165.13 million was reported on a tax basis as per the actual financial statements. Also, the existence and expiry date of unused tax losses that can be carried forward for a period of 06 years under the Inland Revenue Act as per 81 (e) of Sri Lanka Accounting Standards 12 had not disclosed in the financial statements, thus the audit scope regarding the annual tax liability was limited.	In accordance with section 19 of the Inland Revenue Act, the Authority's unused tax losses can be carried forward for a period of 6 years, and therefore there is a balance of tax losses in relation to the adjusted trading profits on the said tax basis, and therefore there was no need to pay tax in the year under review. The required disclosures regarding the existence and expiry date of unused tax losses will be made in the financial statements for the year 2023.	Actions should be taken to recognize profits or losses on a tax basis in accordance with the provisions of the Inland Revenue Act and to make the disclosures required by Financial Statements in accordance with Accounting Standards.
(d)	The cost of 02 housing projects completed as at 31 December 2022 had not been included in the stock value and since the assessed value of the houses related to those projects was Rs.151.6 million, the stock value and annual profit had been understated by that value.	An incorrect answer has been submitted as Since only a part of the Sanhida Sevana Kolonnawa and Lakhiru Sevana Maligawatta housing projects, which are listed as 02 projects completed as at 31 December 2022, have been completed, they have been shown under work in progress accounts.	The cost of houses that have been completed and occupied should be included in the stock value until ownership is transferred and recorded as a sale.
(e)	Provision of Rs.13.86 million had been made in the work in progress account for more than 18 years, and no policy, such as the basis for that provision, the provision rate, the annual provision, etc. had been	This balance, which has been maintained unchanged since 2004, will be further maintained in the books of accounts after investigating	Provisions should not be made without a specific basis and the policies regarding the provision made should be disclosed in

	presented in the financial statements.	the necessary matters and, with the approval of the Authority’s Board of Management, will be write off from the books of accounts in 2023.	the financial statements.
(f)	The audit did not confirm the accuracy of the values of 5 asset items, namely work in progress, client’s projects, invested properties, lands and buildings and completed houses, as the ledger was not prepared to classify and identify the Authority’s development expenditure, which amounted to Rs. 601,613 million, at the Financial Statement level after reporting it at the transaction and event level, in relation to all projects implemented from 1979. Up to 31 December of the year under review.	If any changes are required in the accounting system in this regard, a committee will be appointed to investigate the matter and further advice will be obtained from the Government Audit Division, and the balance sheet will be revised and submitted for the 2024 accounts.	Ledger and accounting systems should be prepared based on basic accounting methods.
(g)	According to the Authority’s rental ledger, during the period 1981 – 2021, 39 properties worth Rs.1,233.42 million had leased to external individuals and institutions for periods of 30,50 and 99 years and rental income was generated. However, the Authority’s assets had been understated as those assets had not been accounted for as investment properties until the year under review.	The asset valuation report and checking work is being made in relation to these 39 properties and accordingly, relevant disclosures will be made in the accounts.	Assets that generate rental income should be accounted for as investment property.
(h)	According to note 28 of the Financial Statements, there were 233 leased assets with an not specifically identified lease term of Rs.3,541.2 million and out of which Rs.5.04 million had been adjusted to the profit of the year under review and Rs.13.43 million to retained earnings without any specific basis in respect of 14 leased assets, and a lease liability balance of Rs.5.57 million had been shown in the accounts relating to a private company whose lease term had expired on 31 March 2022. Furthermore, as deferred lease rental liabilities as of December 31, 2022 were overstated by 5.57 million and profit was understated by Rs.47.44 million due to the fact that Rs.42.4 million related to 121 lease assets that should	Accounting process is currently underway to identify and correctly account for leased assets whose lease term has not been identified.	Proper accounting should be done regarding leased assets.

	have been recognized in profit as deferred lease rental income had not recognized in profit during the year under review.		
(i)	At the time of the asset valuation in the year 2020, the value of 12 lands extent 27 acres 15.01 perches in 12 projects in the Colombo District, for which the acquisition process had not been completed, and 06 lands extent 18 acres 3 roods 11.56 perches in 06 projects in the Colombo District, for which the acquisition process had not been completed by the Authority at the time of valuation, 45 acres 3 roods 26.57 perches in 18 projects, had not been accounted for. Accordingly, the cost of the completed housing stock of the Authority under note No. 16 of the Financial Statements had not been accurately reflected.	The necessary actions will be taken in the future to obtain valuation reports of the lands related to housing projects for which land acquisition has been completed and those for which land acquisition is to be completed, and to include them in the final accounts.	The cost of completed housing stock should be accurately accounted for
(j)	Although residents of 03 projects, which are accounted at a cost of Rs. 6,600.51 million under Note No 16 of the Financial Statements, had been settled, the lands and building had not been valued due to the incomplete land acquisition process. As a result, the lands extend 5 acres 7 roods 16.98 perches had not been identified as investment property in the Financial Statements and only the buildings had been further reported under the completed housing stock at construction cost.	Once the land acquisition process is completed necessary actions will be taken to obtain the valuation reports of the relevant lands and include them in the final accounts.	These lands, which were under control should be properly accounted for as investment properties.
(k)	The cost of constructing the Thalathuoya car park worth Rs.2.52 million which should be recognized as investment property was added to the completed housing stock which resulted in regarding the stock being overstated by that amount and the value of the investment property being understated.	Corrections will be made on this regarding the 2023 Final Accounts.	Corrections should be made in the Final Accounts in a timely manner.
(l)	The Authority land extent 0.2185 hectares in Milagiriya, Bambalapitiya had been given to a private company under 99 year lease for a mixed development project at a	This lease transaction was recorded in August 2025, and the relevant company has currently requested the Urban	Internal control systems should be strengthened to ensure timely recognition and accounting of income.

	lease value of Rs.620 million. As per the agreement entered into with this company in the year 2021, it was agreed to pay 25 percent of the lease value and pay the remaining 75 percent and 2.5 percent interest in equal installments over 30 years. Accordingly, as of 31 December 2022, Rs.155 million had been received as the first 25 percent value and the remaining 75 percent value of Rs.465 million had been received by 25 August 2025. The assets had not been correctly represented as at 31 December 2022 as the receivable value the relevant interest receivable and the ground rent receivable of Rs. 40,000 per annum as per the agreement had not been accounted for.	Development Authority to cancel this transaction.	
(m)	According to requests made by various government institutions, houses had been allocated from different housing project that had been implemented to as emergency social needs. In such cases houses should be handed over after entering into an agreement by receiving either an advance payment or upon full lump sum payment. However, during the period from 2014 to 2022, when handed over 819 housing units related to six government institutions which total payments had not been fully recovered amounting to Rs. 527.85 million further not be recovered and that value had not been recorded in the accounts, while the related revenue and assets had been understated.	Although, the comment of the management indicated that, The "accounting policy of Authority in related to housing disposal was in accordance with Sri Lanka Financial Reporting Standard No. 15, under which the physical ownership of the house transfers to the final party (customer)" . The income due from housing projects where physical ownership had been transferred were not correctly accounted for as per this policy.	The internal control system should be strengthened to ensure timely identification and accounting of income.

1.5.3 Preparation of Consolidated Financial Statements

	Audit Issue	Comment of the Management	Recommendation
(a)	According to the consolidated financial statements, the Peliyagoda Warehouse Complex Company Ltd which is under the control of the group, had assets of Rs. 74.71 million, equity of Rs.242.14 million, liabilities of Rs. 25.74 million, and current account balance of Rs. 193.17 million. Although a liquidator had been appointed	The liquidator has been informed on several occasions to take necessary actions to winding up the Peliyagoda Warehouse Complex Company Ltd. Accordingly, the liquidator is currently taking steps to complete the winding-up of the	Necessary actions should be taken to promptly complete the liquidation process.

	in 2017 and accounts had been handed over for the purpose of liquidate the company. After a period of 8 years the liquidation process had not been completed for audit date of 25 August 2025. Furthermore, the group's financial statements had been prepared based on the 2017 accounts. Also details regarding to the company's assets, liabilities or liquidation were not presented in Note 42 of the Financial Statements, which relates to the subsidiaries of the group.	accounts, and we have been informed that these actions are expected to be completed by 2025, and liquidation accounts will be submitted.	
(b)	Approved financial statements for the year 2022 had not been submitted for the audit by the Lanka Rest houses company. Accordingly, the financial statements of the group had been prepared base on the unapproved and unaudited financial statements of Lanka Rest Houses Company.	At the time of the preparing of the consolidated financial statements, by the Authority, the financial statements of Lanka Rest Houses Company for the year 2022 had not been audited. Accordingly, the consolidated Financial Statements for that year were prepared based on the drafted Financial Statements of the company.	Necessary actions should be taken to ensure that the Financial Statements of the subsidiaries are presented for audit in a timely manner.
(c)	According to paragraph 19 of Sri Lanka Financial Reporting Standard No.10, the preparer of consolidated Financial Statements is required to prepare them using uniform accounting policies for similar transactions and events under similar circumstances. However, in the consolidated Financial Statements, a deferred tax asset of Rs. 0.5 million had been recognized only in relation to the Urban Investment and Development Company. However, after offsetting deferred tax assets against deferred tax liabilities of the subsidiaries of the group, namely the Urban Development Authority and Waters Edge Company, a net amount of Rs. 878.7 million had been shown under Note No. 32 as the group's deferred tax liability.	Actions will be taken to prepare accounts showing deferred tax asset and deferred tax liabilities separately in accordance with Sri Lanka Accounting Standards, from the 2023 financial year,	Actions should be taken to prepare consolidated Financial Statements using uniform accounting policies.

1.5.4 Lack of Documentary Evidence for Audit

Item	Amount Rs. Million	Audit Evidence Not Furnished	Comment of the Management	Recommendation
Investment Properties.	6,800	Information on reasons of disposal or the accounts included after the disposal.	The land division is currently examining the information related to these 45 properties valued at Rs. 6,800 million and will provide the relevant information to the Audit Division.	Relevant information should be provided to the audit at promptly manner.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Comment of the Management	Recommendation
(a)	Although management board should have been established to water bill management, maintenance, and security for housing projects, since the management board for the regeneration housing projects had not been established, and the Authority had issued all water bills to consumers and set the charges for each housing unit, enabling the Authority to collect the revenue by issuing invoices. Accordingly, water bills totaling Rs. 312.6 million had to be collected from 19 projects as at 30 June 2025 and the progress of revenue collection had not been at a satisfactory level.	The asset management and recovery division is taking actions to recover outstanding water chargers by disconnecting water connections.	Necessary actions should be taken urgently to recover the dues to the Authority.
(b)	A total of Rs. 4.78 million in water charges, Management Charges, Electricity Charges and Gas Charges due as at 31 December 2022 from 70 housing unit provided to the Hon. Members of Parliament in the 500 unit housing complex located on Weera Mawatha, Pannipitiya had not been collected by the end of the year under review.	At present in cases where there are outstanding payments for electricity, water gas & administration expenses related to housing units the total due amount must be fully recovered till the housing units handed over again. Thereafter, the keys of the housing units are taken over by the housing project Manager of Viyathpura.	Necessary actions should be promptly taken to collect the receivables due to the Authority from the respective housing units to be handed over.

(c)	As per to the recommendation received from the committee appointed by the cabinet sub Committee Public Expenditure Management, in 2010 the Authority had been, taken steps to sell 10 percent of the houses in the housing projects as a method to recover funds provided by the Treasury for regeneration project and to recover project expenses. Accordingly, 124 houses had been handed over, with collections within 15 years amounting to Rs. 4.5 million at affordable prices. Out of these, from the Sarasavi Uyana housing complex, only 43 houses had outstanding amounts due to the Authority totaling Rs. 17 million as at 25 August 2025.	Actions have been taken to notify the relevant parties by letters to recover the arrears. Accordingly, in the first phase, steps will be taken to stop the service (clearing water) given by Authority for the housing units which not responded relating that matter.	Immediate action should be taken without deals to recover the balance dues to the Authority.
(d)	Actions had not been taken to recover receivables amounting to Rs. 127.93 million, which had been outstanding for more than five years as at 31 December of the year under review	This balance will be reconciled with the individual balances and necessary adjustments will be made carried out in the 2024 statements.	Necessary actions should be taken to promptly finalize and reconcile the balances.

1.6.2 Payables

	Audit Issue	Comment of the Management	Recommendation
(a)	The value of bills payable to contractors was Rs. 7,726 million as per the Financial Statements as at 31 December of the year under review and out of this Rs. 236 million bills payable over 5 years, to settlement of these bills, the Authority had not implemented systematic and active programme.	Where recovery was possible, it has been examined, and for amounts exceeding five years totaling Rs. 236 million, all necessary adjustment have been carried out. The remaining adjustments will be in the future.	Necessary actions should be taken to promptly finalize and reconcile the balances.
(b)	Three account balances over than 5 years with a total value of Rs.4.77 million, and 8 account balances between 1 to 5 years with a total value of Rs.223.65 million, aggregating to Rs.228.42 million relating to other suppliers, deposits, and advances, had been carried	These balances will be reconciled and the necessary adjustments will be made in the 2024 accounts.	Necessary actions should be taken to promptly finalize and reconcile balances.

	forward under current liabilities without being settled as at 31 December of the year under review		
(c)	The Authority had not taken action to settle Rs.2.27 million out of the electricity bills payable of Rs.40.78 million at the end of the year under review for a period of between 2 and 5 years.	All these values have been checked and adjustments have been identified and those adjustments will be made in the final accounts for 2024.	Necessary actions should be taken to promptly finalize and reconcile balances.

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

Reference to Laws, Rules, and Regulations	Non-compliance	Comment of the Management	Recommendation
(a) Urban Development Authority Act, No. 41 of 1978			
(i) Section 8 (h) in Part II	Although, a capital improvement program should be prepared for development areas, such a programm had not been prepared.	Draft plans had been prepared for areas where development plans had not been finalized. Due to the covid pandemic situation in 2021 and prior years, some delays have been reported in the implementation above action.	Timely action should be taken to standardize and prepare the programm for improving capital improving programm in the development areas.
(ii) Section 8 (j) in Part II	Although proposals should be prepared to improve environmental condition and improve the environment in development area such proposals had not been prepared.	Identifying the necessary strategies and projects for environmental development in the development areas is also a major functions of the development plans. The Authority implements the Zoning plans, public recreation plans and regulations introduced by these plans as well as the identified project and their implementation. In specially the implementation of green	The necessary proposals should be prepared in a timely manner.

			building regulations can be highlighted. However, the COVID pandemic in 2021 and prior years caused some delays in carrying out these activities.	
(b)	Section 8 (a) (i) in Part II of the Urban Development Authority (Amendment) Act No. 04 of 1982.	Although development plans should be prepared for development areas or zones with due consideration given to the facilities and services provided to the public, only 62 development plans had been prepared out of 98 declared development areas.	It is expected that Development Plans for the declared areas will be gazette as at 2023 by issuing 22 development plans per year in the coming years.	Necessary actions should be taken to prepare the development plans in a timely manner.
(c)	Section 270 (b) of the Companies Act No. 07 of 2007.	Although companies whose business activities has been suspended for one year, may be wound up by the Court, the Authority had not taken action under said provision to wind up the subsidiaries, namely Urban Investments and Real Estate (Private) Limited, Urban Investments and Hotel Development (Private) Limited, Orchard Urban Housing Development (Private) Limited, and Waters Edge Hotel Development (Private) Limited, which were established on 21 November 2014 but have not carried out any transaction since their incorporation and are not currently in operation	It has informed to the Registrar of Companies to deletion names of the respective companies from the Register of Companies for the purpose of winding up, these companies.	Necessary steps should be taken to expedite these activities by coordination with the relevant institutions.
(d)	Paragraph 2.3 of the Amended Operational Manual introduced by the Public Enterprises	Although the Authority is required to adopt its own administrative and financial manuals in accordance with the relevant provisions of the Operational Manual, duly approved by the Director	Answers were not submitted for this matter.	Necessary actions should be taken to adopt the Authority's own administrative and financial manuals.

	Circular No. 01/2021(iii) dated 27 September 2023	General of the Department of Public Enterprises, the Authority had not adopted such administrative and financial manuals.		
(e)	The Operations Manual for Public Enterprises published under Public Enterprise Circular No. 01/2021 dated 16 November 2021			
(i)	Paragraph 5.3	According to the company's Act, after the inspection of Authority's financial position at least 30 percent of profits after tax should have been allocated to the consolidated fund. As agreed Authority allocated only about Rs. 500 million to the consolidated fund, on behalf of land of Authority given to private company as lease base for project being approved by the Ministry. Even though the company had earned profits of Rs. 2,335 million during the year. No further steps had not been taken to transfer the excess profits to the consolidated fund.	Answers were not submitted for this matter.	According to the company Act, after the inspection of financial position of Authority, at least 30 percent of the profits after tax should be transferred to the consolidated fund.
(ii)	Paragraph 7.7	Although structure for performance review should be formulated for the subsidiaries by the Director of Board of Parent company, no such policies had been prepared by the Authority for any of the subsidiaries. up to the date of this report.	A review policy for the subsidiaries has been prepared and submitted for observation by senior management.	Immediate actions should be taken to formulate for review policies for subsidiaries.

2. Financial Review

2.1 Financial Results

The operating result of the Group and the Authority amount to a profit of Rs. 3,479.86 million and Rs. 2,667.95 million respectively for the year under review and the corresponding profit in the preceding year amounted to Rs. 789.59 million and Rs. 288.30 million respectively. Thus, it was observed an improvement of Rs. 2,681.27 million and Rs. 2,379.65 million in the financial result of the Group and the Authority respectively. This improvement had been mainly due to an increase in income from the housing project for middle- income earners by Rs. 668.16 million compared to the previous year and an increase in interest income and dividend income by Rs. 1,219.46 million.

3. Operating Review

3.1 Uneconomic Transaction

	Audit Issue	Comments of the Management	Recommendation
(a)	It was observed that out of the 111 shops provided on lease basis in the London Market Complex, Colombo 12, agreements had not been signed for 13 shops, the signed lease agreements had not been revised once every 5 years as per the agreements, equal rent of Rs. 1,000 had being collected from these shops of various sizes and no steps had been taken in this regard even though Rs.5.5 million had to be collected from the shopkeepers who had not paid rent so far. Also, it was observed during the audit that out of these 111 shops, about 5 shops were currently open and some of the shops that had been closed were being used illegally and were also being used for dumping garbage inside the shop, but Authority had not been taken steps to rectify this situation and utilize the shops effectively.	There are 83 active customers and 01 Inactive customer in this project and most of the shops have been closed except 4 – 5 of the tenants it has become practically impossible to carry out the monthly rent revisions in accordance with the terms of agreements legal action will be taken to recovery the outstanding and write off the outstanding amount that are no longer recoverable will be written off with approvals.	Necessary actions should be taken to utilize the shops effectively.
(b)	The Authority had been taken to vest a land in extent of 6.451 acres in Rajagiriya, Kolonnawa area which has been declared as an urban development zone. But legal rights to the land had not been transferred to acquire by the Authority even up to the date of this report in terms of Section 6(1) of the	After obtaining the grant letter under section 6 (1) for the said land, action will be taken to it for implementation of a suitable development project.	A formal program is place to ensure the effective utilization and protection of assets.

Crown Land Ordinance and the expenditure incurred for this was Rs.4.46 million. However, this land located near the Kolonnawa Petroleum Storage Complex had been used for waste disposal. But neither a feasibility study nor an Environment Protection License issued by the Central Environmental Authority for waste disposal had not been obtained. Furthermore, due to the fact that this land is being used for garbage disposal, the Authority had not been taken actions to identify and implement a suitable development project.		

3.2 Identified losses

Audit Issue	Comments of the Management	Recommendation
The audit observed that 23 vehicles registered in name of the Authority in the Department of Motor Traffics database had not been physically in the Authority and 03 vehicles of them were missing and 20 vehicles which no information could be found.	03 vehicles were missing and out of the 20 vehicles for which information could not be found, 07 vehicles have been identified as cars, 07 as motor cars and 6 as other vehicles (Land Vehicles)	Have the Physically non-existent vehicles registered in the name of the Authority had been disposed of as required or the officers responsible for those vehicles should be identified and necessary action should be taken immediately.

3.3 Operating Inefficiencies

	Audit Issue	Comments of the Management	Recommendation
(a)	There were 4716 active tenants and 3538 inactive tenants in the houses and shops owned by the Authority as at 31 December 2024 and it was observed during the audit that 43 percent of the total tenants were inactive. Also, outstanding rent of Rs. 939.5 million as at 30 June 2025 and this balance consists of Rs. 287.8 million for less than 01 year, Rs.370.2 million between 1 to 5 years and Rs. 281.4 million for more than 5 years, and no active program had been implemented to recover the outstanding rent.	Tenants are inactive due to the sealing of business premises, abandonment of lease rights, and expiry of the contractual period, and action is being taken to settle the balances of these inactive debtors. Legal actions such as providing payment plans, issuing final notices, and sending letter of demand , are also being taken to recover the outstanding due, and steps	Necessary actions should be taken immediately to promptly recover the balances due from inactive tenants.

		will be taken to write off the balances of tenants that have been confirmed as no longer recoverable from the books will all approvals in the future.	
(b)	The value of security deposit and tender deposits was Rs.325.95 Million and Rs.26.42 Million respectively as per the Financial Statements of the Authority as end of the year under review and the values of those deposit balances that exceeded 5 years were Rs.76.73 Million and Rs.9.75 Million respectively.	Most of these balance over 5 years are held by active customers as per the reveled by the reconciliation activities and necessary actions will be taken to refund the deposits once the relevant matters are completed.	Action should be taken to identify and promptly settle any clearable balances remaining within security deposits and Tender Deposits.
(c)	Out of the advances of Rs. 6,778 Million given to contractors for various projects as at 31 December 2022, advances of Rs.758 Million had been exceeded 5 years and although there were completed and suspended projects, the Authority had not taken effective and efficient action to recover the long – term outstanding advances given for the projects.	By now the relevant balances have been checked one by one and adjustments will be made in the future.	Necessary actions should be taken to settle long term outstanding advances.
(d)	Although, the Authority had been allocated Rs.27,659 Million for compensation to be paid as at 31 December 2022 for land acquisition, the progress in compensation payment remained at a minimum level as only Rs. 591 million had been paid as compensation during the year under review.	Action have been taken to new guideline has been introduced for the regular and expedited payment of compensation, to inform the Divisional Secretaries to take the necessary actions to complete the compensation investigation and notify the amount of compensations to be paid, and actions have been review the Feasibility of divesting lands acquired for development purposes that had not been utilize for the purposes for which they were acquired for a significand period of time.	Necessary actions should taken to promptly. Pay the compensation due for land acquisition.

(e)	Although condominium certificates should obtain for housing complexes from the Condominium Management Authority as per the common Amenities Board (Amendment) Act No.24 of 2003 but out of 25 housing complexes, condominium certificates had been obtained only for 06 low-income housing projects and 02 middle-income housing projects. Furthermore, since the Authority could not establish management boards due to the failure to obtain condominium certificates, the Authority had spent a total of Rs.454.57 million for Rs. 89.82 electricity for common areas, Rs.141.69 million for water bills and Rs.223.06 million for maintenance expenses for 18 housing complexes in the year 2022.	Steps are being taken to obtain the final condominium certificate by providing information regarding low-income housing projects to the Condominium Authority, fixing the deficiencies in the projects that have deficiencies, fixing the deficiencies notified by the Authority, and having the condominium plan revised by the surveyor. At present, community societies have been established in all housing complexes, and arrangements have been made to register those societies at the Divisional Secretariat, open bank accounts and gradually transfer the maintenance expense to those community societies.	Relevant Action should be taken to obtain the condominium certificate promptly and to recover the outstanding balances.
(f)	Although house rent is to be recovered from the salary of the officer for residence in a government house as per the paragraph 5.1 in the chapter XIX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka, Rs. 0.589 Million from 07 currently serving officers, Rs. 2.183 Million from 12 retired officers and Rs. 2.752 Million from 23 other government officer, a total of Rs. 5.524 Million remained outstanding as at 31 December 2024.	No response has been provided regarding the actions taken to recover the outstanding income.	Relevant actions should be taken urgently to recover the outstanding income.
(g)	Although officers are required to return the government houses allotted to them as per the paragraph 6.2 in the chapter XIV of the Establishment Code of the Democratic Socialist Republic of Sri Lanka, 07 officers from other	At present, confirmation of whether an officer of the Authority has returned the official quarters allocated to him prior to retirement is obtained	Action should be taken in accordance with the Establishment Code regarding the return of government houses.

	government institution who had retired as of the date of this report, had not been returned the respective houses to the Urban Development Authority.	through the clearance report and necessary recommendations are made. Action have been taken to obtain the possession of 02 housing units provided to officials of the government institute who are still residing in the houses after retirement. The relevant parties have been informed to handover the remaining 05 houses to the Authority.	
(h)	Although it is prohibited to obtain overdraft facilities from any government account in terms of Financial Regulation 387 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and the paying officer is required to ascertain whether the bank balance is sufficient for all payments made by cheque, there was a net overdraft balance of Rs.25.5 million in respect of 04 bank accounts of the Authority as at 31 December 2022. Out of this, Rs.1.24 million existing from the year 2020 and Rs. 300.16 million carried forward from the year 2017 in respect of 06 accounts had not been reconciled and settled.	Although the accounts showed an overdraft balance, as the cheques issued were not presented to the bank, there was in fact no overdraft balance in the Bank of Ceylon account on that date. Reconciliation is being carried out regarding the balance of Rs.1.24 million in the Hmbantota Inn account and the relevant adjustments will be made at the end of the reconciliation. No reply had been submitted in this regard for Rs. 300.16 million.	Steps should be taken to avoid overdraft facilities through government accounts and to reconcile and settle overdraft balance.

3.4 Idle or underutilize Property, Plant and Equipment

	Audit Issue	Comments of the Management	Recommendation
(a)	It was observed that 33 acres of land, out of the 43 acres of land acquired by the Authority under the Awissawella Urban Development under Gazette No. 1048/10 dated 07 October 1998, had been unused for 26 years as of the date of this report. Furthermore due to the immediate acquisition of the land contrary to the	Although the subject land was acquired with the aim of providing residential facilities for the industrialists and workers generated from the Seethawaka Industrial Estate in parallel with the	A formal program should be implemented for the effective utilization and protection of assets.

	normal procedure of land acquisition, the Authority had to pay an interest of Rs. 14.99 million in addition to the compensation paid to the landowners. It was observed that this land had become a forest and had been used for dumping garbage and various social abuse and that unauthorized cultivation had been carried out.	implementation of the project, it has not been possible to implement the housing projects as planned due to the difficulty in finding private investors for it and the lack of significant demand for houses. Since the prevailing prices should be paid as compensation when re – acquiring lands according to the development needs of the relevant area, the land plots thus acquired can be used for development activities considering their existing value whenever necessary and no financial loss has been incurred when comparing the acquisition cost with the current market value. The subject land plot will also be regularly inspected by the relevant field officers and caretakers to prevent garbage disposal, social abuse and unauthorized cultivation.	
(b)	Under the provisions of the Ministry of Megapolis and Western Development, the ‘Sukhitha Purawara’ urban development project, implemented in 2016, included a phase consisting of a five-storey Mahara administrative and commercial complex with a contract value of Rs. 269.12 million and an area of approximately 8,032.9 square meters. Construction work for this phase was initiated by the Authority in 2017 and completed by 30 September 2019. As at 30 January 2024, only approximately 1,164.9 square meters of the complex were being used by various government	This commercial complex has been approved to be transferred to the Mahara Pradeshiya Sabha for a period of 30 years on a nominal lease for operation, maintenance and management, and is currently in progress to enter into a bilateral Memorandum of Understanding. Also, the contracting process with other institutions that have provided the space will be	Action should be taken to utilize the assets owned by the Authority to the maximum extent effectively and assets should be provided to external parties a rental and lease basis only on formal agreement.

	institutions and social organizations, without formal agreements. currently the auditorium, which is 6868 square meters in size and 428 seats equipped with all facilities had been closed and unused. The two elevators installed in the building had been out of service.	completed this year.	
(c)	37.5 perches Out of the land extend 4 acres 2 roods, and 17.09 perches situated in Borella City Centre, which had been allocated to the Police Department by the Commissioner General of Lands since 1949, had been taken action for vested by the Authority without obtaining the consent of the Police Department In 2002, the Authority had been constructed a two – story building with 95 shops by utilizing treasury provision of Rs.27.6 million. According to the field inspection carried out by the audit. It was observed that these shops had been closed for a long time and the doors of some shops had been broken and had being used for unauthorized occupants for various improper activities, and the environment protection unit of the police station had been informed that there were garbage inside and outside the shopping complex.	Although the cabinet approval to vest the subject land was obtained in 2014, the vesting process has not been completed due to the department of Police not providing consent. Future work will be carried out as the existing problems can be minimized by opening this shopping complex to the public.	A programme should be implemented without delay to compete the land vesting process expeditiously and ensure maximum utilization and protection of asset.
(d)	Although it was emphasized that, in accordance with the Cabinet Approval No.20/1607/306/035 dated 2020 October 27 and the observations of the Minister of Finance for the Cabinet Memorandum dated 2020 October 12, three lands with buildings measuring 1.8274 hectares, where two private institutions are located, should be taken over by the Authority, developed and opened to the public and if those lands are used for commercial purpose the Urban Development Authority should credit the value to the Consolidated Fund after deducting the expenses incurred by it in developing and acquiring the relevant lands from the income generated thereby the Authority had not taken steps to	The first call for investment proposals was not successful and necessary steps are being taken to call for re-investment proposals under alternative payment methods to develop and maintain this property as a boutique hotel project.	Efforts should be made to utilize the assets of the Authority to the maximum extent possible.

	utilize the lands and buildings where these two institutions are located for a suitable commercial purpose.		
(e)	The land extents 37 acres, 01 roods, 8.43 perches in Kilulapana railway station road had been acquired to the Authority under section 38(a) of the land Acquisition Act No 09 of 1950 mention for the public purposes by Gazette No 303/4 dated 26 June 1984 and 20 acres of the acquired land was idle without any use even after 38 years have passed since 1986. Problematic situation had been arisen such as the unauthorized occupation of the land and requiring legal action for eviction, the emergence of various health issues due to the disposal of garbage, the land becoming overgrown, and its misuse for various social misconducts.	Although a portion of this land has been transferred to the National Housing Development Authority for a housing project, the transfer of that portion of land for a housing development project has not been completed due to the Sri Lanka Land Reclamation and Development Corporation not granting permission to develop the land, which was previously a paddy field by filling it with soil. Also, due to legal actions filed in court claiming private ownership over a portion of the subject land and the subsequent securing of an injunction order it has not been possible to utilize those portions of land for development activity as planned. These land plots will be placed under the continuous supervision of caretakers and field assistants.	A program for maximum utilization and protection of assets should be implemented without delay, and steps should also be taken to resolve problematic situations.

3.5 Project or Capital Work Delay

Audit Issue	Comments of the Management	Recommendation
In order to construct an urban park under the Meethotamulla Regeneration Project, a private institution had been awarded the contract valued at Rs.269.5 million on 9 June 2020 for applying a blanket layer to stabilize the garbage dump that had collapsed in the	The Authority has already taken the necessary initial steps to invite investment proposals to select a private sector investor to complete the remaining parts of this project. However, since the	The situations that have arisen due to the non-implementation of planned projects should be studied and necessary actions should be taken to resolve the issues identified in this

year 2017 and install a greenhouse gas emission unit. The Authority had spent a sum of Rs.441.74 million on this project, a park had not been constructed as planned, the stabilized garbage dump had been encroached by wilderness and remained unused. Furthermore, the wastewater disposal system planned to be installed at this location and the air emission system had been completed by 30 percent and 25 percent respectively.	acquisition of 12 acres of land identified for the project has not been completed to the Authority in terms of section 44 of the Land Acquisition act the process to select an investor has not been completed.	regard. Immediate actions should be taken to minimize the financial losses that may arise due to the non-implementation of projects on time and to increase the physical progress of the projects.

4. Accountability and good governance

4.1 Presentation of Financial Statements

Audit Issue	Comments of the Management	Recommendation
Although, Financial Statements should be submitted to the Auditor General within 60 days after the end of the financial year according to Section 6.6 of the Operations Manual for Public Enterprises issued under Public Enterprise Circular No.01/2021 dated 16 November 2021, the Authority had not been submitted the Financial Statements for the year under review on 18 March 2025 with more than two years delay.	The audit reports have consistently pointed out that the valuation of investment properties and their accounting have taken sufficient time to complete the valuation of investment properties and record those values in the books of accounts. The Financial Statements for the year 2023 have been drafted and the accounting adjustments and disclosures to be made in relation to the audit report issued on the Financial Statements for the year 2022 will be made and the said Financial Statements will be submitted to the audit as soon as possible	Annual Financial Statements should be submitted to the Auditor General within 60 days of the end of the financial year.