

Urban Settlement Development Authority – 2021

1.1 Qualified Opinion

The audit of the financial statements of the Urban Settlement Development Authority for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Financial 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 statements give a true and fair view of the financial position of the Urban Settlement Development Authority as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAUS). 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 Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

1.4 Audit Scope (Auditors Responsibility with regard to 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. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. 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 organization, 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 Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Sri Lanka Public Sector Accounting Standards

Audit Observation	Comment of the Management	Recommendation
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Due to applying the values of fixed deposits of Rs.524, 500,000 maturing in 6 months and 12 months as cash and cash equivalents contrary to the provisions of Sri Lanka Public Sector Accounting Standard 02, the balance of cash and cash equivalents in the cash flow statement at the end of the year under review had been overstated by that amount. Also, Rs.916,500,000 invested in fixed deposits by the Authority during the year under review was not included under investment	Fixed deposits with maturities of 6 months and 12 months will be shown under cash flow generating from investing activities from today onwards. Investments in fixed deposits and withdrawals of deposits are recorded on a net basis as indicated by the audit. Instructions were given to the relevant departments to immediately include the cash flows of the invested money and fixed deposits under investment activities.	Investments with a short maturity of 03 months or less should be indicated under cash and cash equivalents. Investments in fixed deposits should be included under investment activities in the cash flow statement.

activities in the cash flow statement, hence the net cash flow generated under investment activities had been understated by that amount.

1.5.3 Accounting Policies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) According to the accounting Policy No. 8.4 of the financial statement, it has been stated that 6 houses with a cost of Rs.4.9 million in Anuradhapura Turuithurugama will be maintained as tourist bungalows, but according to Section No. 7 of Sri Lanka Public Sector Accounting Standard 7 "Property, Plant and Equipment", these houses were not recognized as an investment property and were shown under property, plant and equipment in the financial statements. Also, 15 houses in Sinhapura with a cost of Rs.36.62 million, given on lease basis by the Authority were not identified as an investment property but shown under current asset.	As indicated by the audit, the 06 houses which were proposed to be maintained as tourist bungalows in the Anuradhapura housing project and the 15 houses in Sinhapura given on lease basis will be presented in separate accounts as investment properties.	Accounting standards should be followed.
(b) The accounting policy for accounting of government grants had not been disclosed in the financial statements regarding the grant valued at Rs.716.11 million prevailed prior to the year under review.	The accounting policy applicable to the accounting for the disposal of projects which were done through government grants after year of 2020 has been correctly identified and disclosed in the accounts of the year 2021.	The accounting policy for accounting for government grants should be disclosed in the financial statements.

1.5.4 Accounting Deficiencies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) Even though the Authority had provided 5 per cent for doubtful debts for the debtors as at end of	By now, the debt collection department of the Authority has classified all the loans into regular,	Recoverability of the debtor should be identified according to the debtor balance analysis.

the year under review amounting to Rs.206.77 million, the provision had not been made by reviewing the total recoverability of the debt and ascertaining its full impairment value.

irregular and overdue loans. Accordingly, the provision will be made for the overdue loans under the following percentages based on the outstanding loan balance of 12 installments or more.

- (b) Instead of being accounted as a government grant and amortizing annually, Rs.2.35 million value of motor vehicle received from line ministry in the year 2017 was accounted under the accumulated fund of Rs.6.64 million in the net assets in the financial statements of the Authority.
- The value of the motor vehicle received was accounted as a government grant, and will take actions to amortize that balance annually.
- Assets should be properly classified and shown in the financial statements.
- (c) The grant value of Rs.751.11 million received from treasury for Lunawa housing project which was prevailing more than a year that had been adjusted to the differed income account in current liability account instead of being accounted under the treasury grant account in statement of financial position. Hence, Current liabilities were overstated and equities and reserves understated in the financial statements.
- Arrangement will be done to account under Treasury Grants in the Statement of Financial Position
- Treasury grants should be properly accounted.
- (d) Even though the remaining balance of housing units in Lunawa is 181, only 180 units had been shown as housing stock in financial statements. Hence, Current assets were understated by Rs.3.64 million. Revenue was overstated by Rs.616.29 million because the full amount of Rs.766.35 million was recognized as revenue of the year under review instead of recognizing Rs.150.06 million which is the difference between income from the sale of 175 houses and repayable treasury provisions as
- During the year under review, a house purchased with full payment has been returned to the Authority by the concerned home beneficiary and that house had been missed to add back to housing stock. Accordingly, Authority will work to correct the overstated or understated that have occurred in the accounts. The allocation provided by the Treasury for this project is Rs.1392.34 million. At the time of the initiation of this project, it was not mentioned that the provisions given according to the initial cabinet decision should be sent back to the treasury.
- Cabinet decisions should be followed.

revenue.

Secondly, in the year 2020, an observation has been given that the allocation given to this project under Treasury supervision should be repaid.

In this regard, the Authority will proceed to take further necessary decisions according to the future instructions given by the Treasury.

1.5.5 Going Concern of the Authority

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) Even though in terms of sub-section 16 (3) of the Urban Settlement Development Authority Act No.36 of 2008, the initial capital of the Authority should be Rs.5,000 million and it should be received by the Authority in installment basis from the government's consolidated fund but no capital had been provided to the Authority up to end of the year under review.	Even though in terms of sub section 16(3) of the Urban Settlement Development Authority Act No.36 of 2008, the initial capital of the Authority should be Rs.5,000 million but no capital had been provided to the Authority. Accordingly, the revenues collected on the basis of treasury allocations are credited into the legally established Urban Settlement Development Authority Fund for the going concern of the Authority, While the amount is maintained as a treasury fund and only its bank interest is presently used to achieve the objectives of the institution.	Prompt actions should be taken to obtain the capital contribution of government to the Authority.
(b) In terms of sub section 16 (1) (f) of the Urban settlement Development Authority Act No.36 of 2008, the service charges collected from the property developers, who invested in low income housing projects, by the Urban Development Authority to invest in low income housing projects, should be credited to the Urban Settlement Development Authority Fund. However, according to the Cabinet decision made on 14th December 2010,	Discussions were made between the two institutions headed by the Secretary to the line ministry, to obtain the receivable service fee amount of Rs.207.33 million from Urban Development Authority. It was decided by the secretary to the line ministry that the amount should be paid to the Urban Settlement Development Authority or not, based on the	According to the act, collected revenue should be received to the Authority and necessary actions were taken by secretary to the line ministry since both institutions under same ministry. Furthermore, actions can be taken by based on the cabinet decision without amendment of the act by parliament.

No.10/2951/504/012, which was received in the Cabinet Memorandum submitted by the Minister of Finance and Planning, collection of the service charge has been terminated. Thus, the Authority had lost its' main source of income. Even at the end of the year under review, Urban Settlement Development Authority had failed to obtain the Rs.207.33 million service charges which had been collected by Urban Development Authority but not given to Authority at the time when that decision was taken.

recommendations of the Auditor General and the Chairman and Director General of the Urban Development Authority who participated in the event expressed their agreement with that decision.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Comment of the Management	Recommendation
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(a) The value of the receivable Rental income in respect of 02 housing projects at the end of the year under review amounted to Rs.75,462,935 and out of that receivables, the balances were existed as in arrears, between 1 to 2 years, 2 to 5 years and over 5 years amounted to Rs.12,079,528, Rs.34,769,303 and Rs.16,384,576 respectively.	Arrangements will be taken to carry out legal proceedings for default loans and collect other arrears.	Prompt actions should be taken to recover the rent income receivables and loan installments in time.
(b) Total value of the receivable loan installments in respect of 5 housing projects and 03 concessional loan schemes as at the end of the year under review amounted to Rs.130, 973,939 and out of that receivables, the balances were existed as in arrears, between 1 to 2 years, 2 to 5 years and over 5 years amounted to Rs.23,162,568, Rs.50,610,420 and Rs.35,166,939 respectively.	Arrangements will be taken to carry out legal proceedings for default loans and collect other arrears. Discussions are underway to sign new agreements with the beneficiaries who have outstanding loan installments for a long time for restructuring the loans.	Prompt actions should be taken to recover the rent income receivables and loan installments in time.

- (c) As at end of the year under review, the distress loan balances receivable from the retired and vacated post officers was Rs.313,952 and out of that amount, the balance due more than 5 years was Rs.171,626. In order to recover arrears in distress loan and housing loan from employees who left the Authority, letter of demands are sent. And also, action had been taken to recover the loan balances from the sureties. One employee had not been paid his salary for a particular period and Rs.85, 974.13 which was outstanding for that particular period, will be deducted from the salary in 18 monthly installments from July 2022. Necessary action should be taken to recover the arrears from the officers.

1.6.2 Accounts Payables

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
The office rent payable to the Urban Development Authority for the office premises located in Sethsiripaya, which had suspended payments, had resumed since last year, but the outstanding office rent from 2016 to the end of the year under review was Rs.27.39 million.	Out of the balance of Rs.27.39 million, an amount of Rs.12.64 million will be an expense in the year 2021 and it has been paid so far. Balance amount of Rs.14.74 will be paid in installments.	Arrangements should be made for prompt settlement of office rent payable.

1.7 Non – compliances with Laws, Rules, Regulations and Management Decision etc.

----- Reference to Laws, Rules, Regulations etc. -----	----- Non - Compliance -----	----- Comment of the Management -----	----- Recommendation -----
(a) Urban Settlement Development Authority Act No.36 of 2008	Even though the urban settlement development Authority had been established to prepare a national policy for urban settlement development and to ensure the implementing of such policy, but the Authority had failed to prepare and implement this national policy even though 13 years had passed since	Although a consulting committee consisting of less than 14 members comprising of chairman was appointed to prepare the national policy from the year 2017, the efforts to prepare the national policy was failed. However, a new consulting committee was appointed and they	Adhere to the objectives of the Authority's Act.

the establishment of the Authority. As well in terms of section 10 of the act, the Authority had appointed a consulting committee by April 2017, less than 14 members comprising a chairman. However, the functions which are related to the objective of the Authority such as proposals of the authority, plans, projects and action plans etc., had not been identified by the committee by end of the year under review.

started to prepare a national policy.

The consulting committee expects to prepare a draft policy by the end of 2022. In the previous years, the method of property disposal and implementation of the proposals of the authority, plans and projects were presented to the consulting committee and was taken the advice from the consulting committee.

(b) Section II (b) of the Finance Act No 38 of 1971

The Authority had invested Rs.1,195 million in fixed deposits during the year under review on the approval of the Board of directors without obtaining the approval of the Minister of the Finance.

According to the urban settlement development Authority act, written approval has been given by the General Treasury to create a fund and collect money to achieve the objectives of the act. Accordingly, to avoid the financial loss caused by maintain the fund in the current account, arrangements had been made to maintain fixed deposits in State bank under high interest rates.

The regulations of the Finance Act should be followed.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka :

(i) FR 261 (2)

In case where payments are made by cheque, the number of the cheque should be quoted on the voucher and against the appropriate entry in the cash book, but the authority had not quoted the cheque numbers in 152 instances of recurrent

Arrangements were made to record the check number in the voucher as well as in the cash book and arrangements are already being made to avoid omissions.

Financial Regulations should be followed.

expenses valued at Rs.31,088,815 related to the months of January, August in the reviewed year.

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| (ii) FR 262 (2) | In order to avoid the risk of voucher being presented for payment a second time, all vouchers paid with their supporting documents should be stamped with the “paid” stamp. But Authority had not followed above procedure relating to 4 paid vouchers valued at Rs.2,240,763 in the year under review. | Payment vouchers and confirmations are already being stamped with the “Paid” stamp without omissions. | Financial Regulations should be followed. |
| (iii) FR 262 (3) | If the payment is done by using cheque, the paying officer should sign or initial the paid voucher and supporting document. But Authority had not followed above procedure relating to 44 paid vouchers in the year under review amounting to Rs.5,297,906. | Payment vouchers and confirmations are already being signed without omission. | Financial Regulations should be followed. |
| (iv) FR 371 (2) (b) | To made the settlement of sub imprest ranging 3,000 – 60,000 totaling to Rs.218,000, given in 13 instances to 12 officers, had been taken a period from 1 to 30 days and this amount had been redeposited without being utilized to the desired purpose. | The human development programmes of the Authority are often implemented through sub imprest and were being carried out under the recommendations and supervision of the head of the departments. The relevant officers have been instructed to get advances only for specific programmes to be completed and redeposit immediately when unutilized the advances to the desired purpose. | Arrangements should be made to settle the advances in time. |

The grant of an Adhoc sub imprest (Special Advance) should be limited to Rs.100,000 and only for staff grade officers, but Authority had not followed above regulation amounting to Rs.752,000 within the range of Rs.104,000 to Rs.120,000, relating to 7 instances during the year under review.

Generally special advances were given up to Rs.100,000. But the approval was grant for exceeding above limit for special cases such as allowances to be paid in board meeting and other meetings.

Prior permission should be obtained from general treasury when it is needed to exceed the financial limitations.

An adhoc sub imprest should be settled immediately after the completion of the purpose for which it is granted. But Authority had spent from 35 days to 263 days to settle the advances amounting to Rs.788,170 issued in 34 instances.

Instructions have been given to all departments to settle the advances immediately after the completion of the purpose which it is granted and attention will be paid to the settlement before due dates. The head of the departments have been instructed to take disciplinary action against those who do not act as per the circular guidance regarding to the settlement of advances.

Action should be taken to settle the advances in due time.

(d) Establishment code of the Democratic Socialist Republic of Sri Lanka

Section 13.1.2 & 13.4 of Chapter II

According to the approved recruitment procedure, an officer who is qualified in all respects should be appoint as an acting officer for certain position but the Authority had appointed officers who did not fulfill the required qualifications for three executive positions on 29 December 2021.

Due to the non-operation of three executive level positions of the Authority and suspension of new recruitments, three officers who met the highest qualifications through internal interviews were employed in those positions on an acting basis by the Authority.

Vacancies should be filled in accordance with the approved requirement procedure.

2. Financial Review

2.1 Financial result

The operation of the Authority for the year under review had resulted a surplus of Rs.784,619,371 and as compared with the corresponding surplus of Rs.2,170,456 for the preceding year indicating an progress in the financial results by Rs.782,448,915. Accounting of the total value received from the sale of houses in the Lunawa housing programme as an revenue of the Authority was mainly attributed for this situation.

2.2 Trend Analysis of Major Income and Expenditure Items

As compared with the preceding year, the Treasury allocation for recurrent expenditure was increased by Rs.26 million or 20 per cent and treasury allocation for the human development programme had been increased by Rs.16 million or 145 percent during the year under review. Also the salary, overtime and other allowances of the Authority had been increased by Rs.10 million or 15 percent.

2.3 Ratio Analysis

Compared to the preceding year, Net surplus ratio had been increased by 77 percent and recognition of Rs.766 million as revenue which was the income of the sale of houses in the Lunawa housing development project was mainly attributed to that situation.

3. Operational Review

3.1 Management Activities

	Audit Observation	Comment of the Management	Recommendation
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(a)	Authority had not implemented proper method to recognize the direct deposits received as installments from the house applicants and house buyers which is credited to the bank account of the Authority. Therefore unrecognized balance as at the end of the year under review was Rs.16,279,125 at the end of the year under review. Out of that balance, Rs.5,706,230 was related to the period from June 2019 to 30 November 2021 and Authority had not worked to identify and settle the balance even at the end of the reviewed year.	The Authority informed the borrower to directly deposit to the account and introduced the Whatsapp number to send the photoes of the cash deposit slip. The relevant transactions will be identified by matching the balances of the deposit slip and bank statement.	A systematic procedure should be implemented for prompt recognition of direct deposits.

- (b) By the year under review, the Authority had failed to complete the acquisition of 2.21 hectares of land from the relevant institutions for 512 housing units in 3 completed housing schemes and one housing scheme under construction. It was further observed that delays were occurred to handover the deeds to the recipients.
- Under the government's land ordinance act, further activities will be promptly coordinated to hand over these lands to the Authority.
- Action should be taken to speed up for land acquisition.
- (c) Beneficiaries of Thalawakele housing project had sold or rent the 15 houses provided by the Authority to other people without approval of the Authority in the year 2019. Any legal actions were not taken by Authority against above beneficiaries and illegal occupants of 10 houses.
- It has been informed in writing dated on 08 November 2021 to the beneficiaries who disposed their houses to third party that the legal actions were taken to evict them from the land and houses, if they do not settle in houses. Advices were given to relevant departments to take necessary actions in future.
- 15 illegal occupants were recognized and 2 occupants out of them were disposed the relevant houses by using fraudulent documents without signing agreements with the Authority. Legal actions will be taken to that.
- Legal actions should be taken against the beneficiaries who disposed the houses without permission.
- (d) Even though a sum of Rs.2.86 million had been received by the Authority in 2015 to construct the drainage lines of the Chilaw housing project and that function had not been completed even up to end of the year under review.
- The Authority started calling bid in April 2022 under national competitive bidding method in relation to this project, which cost has revised in several times due to periodic price increases. But no contractor has come to under the current high inflationary economic situation. Therefore Authority expected to call for bids again immediately. But due to the deterioration of rupee, contractor has not coming forward is a problematic situation.
- The relevant project work should be completed within the planned time.

3.2 Transactions in Contentious Nature

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
<p>(a) 53 housing units Valued at Rs.62.87 million out of 288 housing units belongs to Angulana housing scheme which was constructed for the fishermen community by the Authority had been given to actors and sports men between 26 September 2016 and 12 February 2019 through free transfer papers, without being charged money. According to the Cabinet memorandum no. ଝଠଝ /No./19/2761/122/085 dated 18 September 2019, it had been decided to charge a reasonable price from the beneficiaries, however the Authority had not recovered any amount at the end of the year under review. The reason for that is, houses were awarded through free transfer papers before the Cabinet decided to charge money for those houses.</p>	<p>There is a problem has arisen regarding 53 housing units provided to actors and sports men. According to the relevant cabinet memorandum, a reasonable amount should be recovered from them. However the cabinet Minister at that time has given free transfer paper signed by him to these people. We have asked the advice of the Attorney General to take further action in this regard, but we have not received the advice up to now and further work will be done after receiving the legal advices. All beneficiaries without one beneficiary had refused to pay due to the minister's signed grant letter.</p>	<p>According to the Cabinet decision, arrangements should be made to recover the money from the responsible parties.</p>
<p>(b) In order to enhance the living condition of the low income families living in the urban areas, the treasury grants amounting to Rs.716.11 million had been provided to the Authority during period from 2012 to 2021, for 07 housing projects and to provide scattered housing loans, by the end of the year under review. These funds are provided to beneficiaries through various projects and the installment payments of the houses given to low income families and scattered housing loans installment amounting to Rs.10.82 million had been recovered from the beneficiaries in terms of installments in the year under</p>	<p>Revenue received from debt recovery is credited to the Authority's fund, and the funds are used only for fixed assets and development projects and not used for recurrent expenditure.</p>	<p>A fund should be established as per the provisions of the Act.</p>

review was not credited to the Authority's fund as per section 16 of the Urban Settlement Development Authority Act No. 36 of 2008.

- (c) According to the instructions given by the Attorney General on 28 October 2021 in relation to the financial fraud that occurred during the takeover of the Real Estate Exchange (Private) Company Limited to the Authority, The Line Ministry should consider whether legal proceedings can be initiated against the concerned persons in connection with the loss under Finance Regulation 103 (Chapter II) and although it is stated that ministry should recognized the person in connection with loss and calculated loss incurred to the government accurately. But arrangement for further actions had not been done even by June 2022 by line ministry.
- As per the instructions of the Attorney General regarding the re-appeal of the case No. 543/MR in the Kaduwela District Court, the relevant line ministry has informed the line ministry on 30.03.2022 to take action under Finance Regulation 103 (Chapter II) regarding the loss to the government of Sri Lanka but no advice has been received up to now.
- Efforts should be made to prevent this on the intervention of the line ministry.
- (d) The remaining amount of Rs.4,514,970 received from the General Treasury for the Hambantota Sanitation Improvement Program has not been settled by the Authority by the end of the year under review.
- All liabilities and obligations were settled in relation to this project up to now. Board approval was granted by the board paper no. 05/2022/03 dated 16.6.2022, to use the remaining amount of financial provision Rs.4,514,970, which was received through the National Housing Development Authority (NHDA) for proposed sanitation and infrastructure improvement projects of the Authority. Accordingly, it is planned to be deployed in the year 2022 for the proposed sanitation and infrastructure improvement projects such as Halawatha Nariyagodellawatta and Thalawakele housing projects.
- Prompt Actions should be taken to settle the relevant amounts.

- (e) The Authority had received Rs.27 million from the Treasury for the Human Development Programme in the year under review, Out of that balance, only Rs.22.05 million or 82 percent had been spent on the related programme and out of that Rs.7.60 million or 34 percent had been spent on recurrent activities such as obtaining fuel, accommodation and food related to the implementation of the programme. Accordingly, only 66 percent had been spent on the human development program and from the Rs. 27 million received, Rs. 4.95 million balances had been spent for the recurrent expenses of the Authority.
- Due to the Covid pandemic situation in the country, human development programme were not implemented as planned in the year 2021, so the provisions of that has remained. These provisions have not been spent on recurrent expenses and are to be used for human development programs in the coming year.
- The capital allocation from the treasury should not be used for recurrent expenditure.
- (f) According to Cabinet Decision No. 14/1293/517/031 dated 30 September 2014, which was provided approval for liquidating Real Estate Exchange (Pvt) limited Company (REEL) and handed over the remaining assets and liabilities to the Authority and to close it down within a period of 2 months, Authority had received Rs.19.02 million Funds to settle the liabilities and from that balance Rs. 7.11 million of cheques written in October 2015 were not given to 24 beneficiaries for 6 years up to December 2021. Out of that balance, Rs. 4.45 million which was paid to management committee fund by the beneficiaries in 2 housing projects was used to settle the amount which used for another tasks by authority and balance Rs.2.66 million was accounted as revenue of the year under review.
- Reel Company has completed the winding up process as per notice of Registrar of Companies Department letter dated 03.01.2019 (PV5592 LIQURDATION). No claim for these liabilities has been raised in the process. According to the decision of the board of directors, the provision had been allocated for the shadow management corporation fund related to the 2 housing projects, and the remaining money has been credited to the fund of the Authority.
- The parties should be properly informed about the cheques and records should be kept to prove it.

3.3 Idle or Underutilized Property, Plant and Equipment

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) Sixteen housing units in 3 housing schemes of the Authority had been closed down for a period from 2 to 5 years without being occupied. As a result, the rent income could have been collected was lose by the Authority.	The 06 houses built by Environmental Friendly technology located in the green settlement of "Thuruithurugama" have been reserved for the construction of a holiday resort on behalf of the Urban Settlement Development Authority. Beneficiaries of 07 unsigned houses in Talawakele housing scheme are refusing to sign the agreements. A formal method will be adopted for disposal in the future. Because of the illegal occupation of 2 houses in Thuruithurugama which should be disposed, case has filed under the Government's Land Acquisition Act in Anuradhapura Magistrate's Court by Authority. Actions will be taken to disposal of these 02 houses after the completion of legal proceedings.	Relevant actions should be taken to dispose of the relevant houses immediately.
(b) Without a proper feasibility study the project planned to build permanent houses for 1220 houses in 12 acres with low facilities in Mahaiyava area of Kandy, had abandoned with the fact of land limited to 4 acres due to the risk of landslide The expenditure of Rs.1,855,411 incurred for the project was an idle expenditure and it was shown in the accounts under work in progress without being deducted against the profit of the Authority.	According to the report given by the National Building Research Institution, out of the 12 acres of this land, 2 acres are inappropriate for construction. However, due to non-availability of the proposed Pakistan Government loan facility, several feasibility studies were conducted to implement this project on a public-private partnership basis. Accordingly, the project was stopped as it was confirmed that this project was not suitable for implementation under the PPP method. However, the initial cost of a non-viable project has caused a financial loss to the Urban Settlement Development Authority.	A feasibility study should be done before starting the projects and the idle expenses should be deducted from the accounts on proper approvals.

3.4 Procurement and Contract Activities

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) The contract for construction of welfare building of the Sayurapura Housing complex in Angulana at a cost of Rs.14.19 million had been abandoned only after completing of works valued at Rs.5.85 million by contractor at year 2019. As a result, the Authority was unable to recover the mobilization advance paid to the contractor amounting to Rs.1.32 million up to end of the year under review.	Discussions have been held with the National Mechanical Engineering Organization (NEMO) from time to time to recover this outstanding amount and as a result they have agreed to pay the due amount to our institution through letter No. NP/C/16/24 dated 08.04.2022. Accordingly, we inquired about the method that they proposed to make the payment by letter no USDA/ENG/08/07 Fin III dated 17.05.2022, and in case of further non-payment of the amount, legal actions will be taken on the advice of the line ministry.	Actions should be taken to complete the relevant works promptly and recover the due amount.

3.5 Staff Administration

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) The approved cadre of the Authority as at 31 December 2021 was 182 and the actual cadre as at that date was 135. Thus, 47 vacancies and 02 excess staff were observed in the cadre of the Authority.	Although The approved cadre of the Authority was 182 and the actual cadre was 135. Also, on the approval of the Management Services Department, approval has been given for the recruitment of 13 people on contract basis for the engineering department. At present, 04 officers have been recruited on contract basis for the basic engineering work to be carried out to start the projects. In the future, the remaining 09 people will be recruited according to the progress of the projects, and accordingly the staff will be 153+13=166.	According to the information submitted to the audit, the actual staff is 135. Approved staff amendments should be made and maintained without vacancies and redundancies.
(b) Since the recruitment procedure of the Authority has been prepared based on the old format,	As per 2016 model, Authority has forwarded the updated recruitment procedure to	Arrangements should be made to include the relevant posts in the approved staff formally.

it was instructed to update the procedure as per the new formatted from the letter of the Director General of Management Services, No DMS/1523/ (vol-1) dated 22 May 2019. However, that requirement had not been fulfilled up to April 2022.

Management Services Department from 2018 onwards. It has been further revised and referred for approval through the line ministry under file number USDA/ADM/03/71-2021 on 15.03.2022, but no approval has been received so far.

- (c) As per the last approved recruitment procedure, applicants of the social development assistant should have passed the full time 2-year diploma course in professional social work offered by the national institute of social development. But during the year under review, 12 social development assistants who were recruited by the Authority did not meet the basic qualifications when they submitted their applications. Authority had appointed them on the basis of the agreement to complete the basic qualification in future, contrary to the terms of the recruitment procedure.

Out of the 12 candidates who applied for the posts, only 02 out of 03 who had a diploma in social work came for the interview, and they were not satisfied with the salary and were denied the positions. Accordingly, the board of directors decided to appoint 10 people who have obtained the highest marks in the interview without diploma in social work and the basis on the agreement to complete the diploma within 02 years.

However, in the revised recruitment procedure prepared as per the 2016 model, the requirement of a diploma in social work for this post has been removed, and the procedure has been approved by the Department of Management Services at the discussion level, but the written approval has not been sent to us so far.

The approved recruitment procedure should be followed.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation

Comment of the Management

Recommendation

- (a) The flowing activities which should be carried out to achieve the objectives of the Authority according to the Urban Development Act No.36 of 2008, had not been include to the Corporate Plan.

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| (i) Conducting of studies and researches relating to identifying of the economic and social condition of the urban settlers. | The information of the projects carried out by the social enlighten division of our institution is included in the corporate plan and arrangements are made to update the corporate plan. | A corporate plan should be prepared including tasks to achieve the objectives of the Authority. |
| (ii) Implementing of national wide loans schemes. | Recommendations were given by national procurement department, in order to implement the "housing loan program" aimed at adding standardized houses to the urban housing stock and to conduct this program through state banks instead of treasury allocations. Information about that will be included in the corporate plan and the corporate plan will be updated. | A corporate plan should be prepared including tasks to achieve the objectives of the Authority. |

4.2 Action Plan

Audit Observation

Comment of the Management

Recommendation

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| (a) According to the Urban Settlement Development Authority Act No.36 of 2008, 07 Physical resources Development Programmes should be conducted according to the action plan by the Authority in order to increase the physical, social and economic conditions of the low-income urban settlers. However, in addition to the completion stage works of the Lunawa Housing Project, any physical resource development programme had not been implemented during the year under review. Also, the construction work of the housing project for middle income earners with the cost of Rs.6,619.56 million which is | Lunawa Housing Project was completed with the aim of uplifting the physical, social and economic status of the low-income community on the basis of the Treasury allocation. Also, it was obtained approvals for the initial conceptual plans required to start the physical development projects which were planned to be completed in the year 2021 from the internal earnings. The initial work of the project for middle income earners with the financial estimate of Rs.6,619.56 million could be done in the year 2021. | The action plan should be prepared realistically and relevant tasks should be carried out as per the plan. |
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included in the action plan prepared by the Authority for the year under review, had not been started during the year under review.

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| (b) | Only the activities to be performed on the treasury grants in the year under review were included to the action plan and the activities conducted from the earnings of the Authority had not been included to the action plan. | Among the physical projects which was planned to be implemented in the year 2021, the repair works of Sinhapura and Sahaspura housing projects were planned to be done by the Authority's internal earnings. Furthermore, Lunawa and Nawalapitiya housing projects were carried out through internal earnings and these activities were included in the annual Action Plan of 2021. | Repairs and construction of the projects presented in reply are activities to be performed on treasury grants and activities performed on the Authority's earnings should also be included in the action plan. |
| (c) | According to the public enterprises' circular no 01/2014, action plan had not prepared including the following points. | | |
| (i) | Annual procurement plan including proposed major investments, capacity expansions, major procurements | Proposed major investments and capacity expansions will be included in the Annual Action Plan in the future. | All the tasks expected to be done during the year should be included in the action plan. |
| (ii) | Human Resource Development Plan | Human resource development plan will be included in the annual action plan in the future. | All the tasks expected to be done during the year should be included in the action plan. |

4.3 Internal Audit

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(a) Only the post of the Internal Auditor had been approved in the approved cadre and it was further maintained as a Middle Management (MM) level post. Also, only two management assistants had been assigned to this division without recruiting auditors.	The Board of Directors approved the creation of a post of Internal Auditor (HM-1-1) in the Authority. According to the approval, the relevant request has been sent to the Department of Management Services through the Line Ministry.	The internal audit activities should be strengthened, as a part of the internal control system of the Authority.

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| (b) | Out of 14 audit programs included in the approved audit plan for the year under review, only 3 programs had been completed. | Actions will be taken to perform the tasks related to the programs included in the audit plan for the coming year. | According to the audit plan, Arrangement should be made to perform the relevant tasks. |
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4.4 Budgetary control

Audit Observation	Comment of the Management	Recommendation
(a) Budgeting was not used as an effective control mechanism by the organization and significant variances ranging from 1 percent to 1567 percent were observed between the budgeted expenditure and actual expenditure. Thus, it was observed that the budget was not used as an effective management control tool.	Attention has been paid to use the budget document as an effective management control unit. There is a variation in only a few expenditure items for certain expenses at the end of the year, since certain essential expenses were approved from occasionally.	Relevant tasks should be carried out with formal budget controls.
(b) Rs.3.41 million had been allocated to purchase fixed assets through budget allocations in the year under review but Rs.7.1 million fixed assets had been purchased at the year under review. Therefore Budgetary expenditure has been increased by Rs.3.69 million in the year.	The allocated provision may not be sufficient due to occasional necessary purchases and such additional necessary funds are provided from the Internal Fund of the Authority only with the special approval of the Chairman.	Relevant tasks should be carried out with formal budget controls.

4.5 **Tabling of Annual reports**

Audit Observation -----	Comment of the Management -----	Recommendation -----
<p>According to section 6.5.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003; the Annual Report of the Authority should be tabled in Parliament within 150 days after closing of the financial year. However, the Authority's annual reports from 2016 to 2020 had not been tabled in Parliament even up to May 2022.</p>	<p>The annual reports from 2016 to 2020 were discussed in the Ministerial committee meeting held on 24 November 2021, and it has been decided to table the reports in Parliament on 30 November 2021.</p> <p>The annual report for the year 2021 has now been drafted and completed and it is planned to carry out further work as soon as the final audit report for that year is received.</p>	<p>Arrangements should be made to table the annual reports in Parliament without delay.</p>