

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Urban Settlement Development Authority (“Authority”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with 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 statements give a true and fair view of the financial position of the Authority as at 31 December 2024, and of its financial performance and 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 (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 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 (Auditor's responsibility on the audit of 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 scepticism 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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>(a) As per paragraph 28 of Sri Lanka Public Sector Accounting Standard No. 10, the revenue should be recognized once the 05 conditions to be completed to recognize the revenue from the sale of goods are completed. However, the houses in the Lunawa Housing Project had been disposed under diverse methods and the revenue had been recognized at each time. Consequently, a specific accounting policy had not been followed by the Authority to identify the point of sale at the time of disposing these houses.</p>	<p>Since the Authority has retained the legal title as a protective measure to collect money as per Section 31 of Sri Lanka Public Sector Accounting Standard No. 10, it has been identified as a revenue from sales after handing over the possession of the houses. Also, after the fulfilment of the 05 conditions mentioned in Paragraph 28 of Accounting Standard No. 10, a revenue from sales will be identified and accounted.</p>	<p>The revenue should be identified in accordance with Sri Lanka Public Sector Accounting Standards.</p>
<p>(b) Orchard Estate of Nittambuwa with a fair value of Rs. 120 million; which had been accounted at Rs. 60 million in the year 2023, had been revalued at Rs. 146 million in the year under review not in accordance with Sri Lanka Public Sector Accounting Standard No. 11, and its revaluation profit of Rs. 26 million had been accounted as a revenue from non-exchange transactions instead of being credited to the revaluation reserve not in accordance with Paragraph 46 of the Standard, and as it had been mentioned under the government land grants worth Rs. 652.3 million received by the Authority up to the end of the year under review without identifying the revenue from non-exchange transactions in accordance with Paragraph 45 of the Standard. Consequently, the government grants had been overstated by that amount.</p>	<p>The amount of Rs. 26 million will be transferred to the revaluation reserve account within the year 2025. Since there are future obligations, the steps will be taken to recognize those grants as revenues once those obligations are settled.</p>	<p>The revaluation profit should be transferred to the revaluation reserve, and the revenue from non-exchange transactions should also be accounted as a revenue in the year under review.</p>

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| (c) | The Lunawa land, received by the Authority as a free grant on 14 December 2022 and of which the government valuation was Rs. 102 million as at 21 December 2012, had not been mentioned in the financial statements even by the end of the year under review in accordance with Sri Lanka Public Sector Accounting Standards 11. | At an instance of liquidating a condominium property subsequent to the arbitration of its closing, the task of closing the condominium property by paying a percentage compensation to the owners of those shares through a court arbitration process; including the respective condominium property and the land on which it is located, is legally transferred to the Condominium Management Authority. Consequently, the necessary steps will be taken in respect of accounting after investigating and verifying this matter. | The steps should be taken to account the estimated value of the land. |
| (d) | Since the Orchard Estate of Nittambuwa and Millagahawatta lands of Welisara worth Rs. 380 million received by the Authority for commercial purposes had not been identified and accounted as investment property in accordance with paragraph 07 of Sri Lanka Public Sector Accounting Standards 13, the investment property of the year under review had been understated by that amount. | In accordance with paragraph 13(1) of Accounting Standard, the steps will be taken to account the value of the Orchardwatta of Nittambuwa and Millagahawatta of Welisara as investment property. | As per the Sri Lanka Public Sector Accounting Standards, the land referred to should be accounted as investment property. |
| (e) | Since the employees' gratuity expenses amounting to Rs. 9.99 million had been recognized during the year under review without being calculated in accordance with Sri Lanka Public Sector Accounting Standards 19, the accuracy of the said value and the non-current liability amounting to Rs. 37.93 million recognized in relation thereto could not be verified. | The tasks such as preparation of defined benefit plans, measuring defined benefit obligations, including both vested and unvested obligations, discounting, and actuarial valuation as per Sri Lanka Public Sector Accounting Standard No. 19 will be carried out in the future. | The defined benefit plans should be recognized and accounted in accordance with Sri Lanka Public Sector Accounting Standards. |

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) A difference of Rs. 15.46 million was observed between the balance of 18 accounts receivable as shown in the financial statements of the Authority as at 31 December 2024 and the balance in	The steps will be taken to correct the difference in the values of the accounts receivable shown in the financial statements of the	The reasons for the differences between the financial statements and the schedules should be

	the schedule submitted to audit.	Authority and the schedules submitted to the audit.	found, and the correct value should be adjusted in the financial statements of the coming year.
(b)	The estimated value of 06 land lots related to the “Thuruithurugama” settlement project in Katukeliyawa of Anuradhapura amounting to Rs. 1.43 million had not been accounted until the end of the year under review, and even if 02 houses in this project had been sold in the year 2024, its value amounting to Rs. 2.36 million had been accounted as current liabilities instead of being removed from the relevant asset account.	Although the buyers of the two houses in this project had agreed to purchase the houses and paid the money, sales agreement had not been entered into with the Authority. As the respective buyers have entered into a contract at present, the proceedings will be done to revise it in the year 2025.	The proceedings should be done to maintain accurate ledger accounts regarding sales of houses and this error should be corrected in the financial statements of the coming year.
(c)	The Authority had not taken steps to account or disclose a bill amounting to Rs. 14.03 million, which had been certified by the Project Manager as payable in the year 2024 in relation to the construction work done in the Lunawa Housing Project in the year 2023, under current liabilities as at the end of the year under review.	As the approval of the Standing Technical Committee (STC) of the relevant ministry had not been received for the quotation related to this bill even as at 31 December 2024, it had not been included in the statements of accounts. The relevant approval is yet to be received at present and this value will be recognized as a current liability in the future.	The value of certified bills payable should be accounted with formal approval.
(d)	Although it had been mentioned by the Cabinet Decision No. CP/20/1844/306/055 dated 22 December 2020 that the provisions received for the project from the income received by selling houses related to the Lunawa Housing Project should be reimbursed to the Treasury, the amount of Rs. 1,167 million; out of the Rs. 1,267 million provided to the project by the Treasury, not paid to date had been shown under equity and reserves without being shown as a balance to be paid. Consequently, the equity and reserves had been overstated	This income has been accounted considering a source of money of the Authority's fund established in accordance with the provisions of Section 16(1) of the Act for the going concern and the future development of the Authority. These funds will be invested as working capital for the proposed middle-income housing projects scheduled to be implemented in the future and the income realized from	The amounts to be paid to the Treasury should be accurately mentioned in the accounts, and a formal review of project payments should be conducted, as well as the relevant arrangements and instructions should be submitted in writing and the monitoring should

by that amount.

those projects will be reimbursed to the Treasury in instalments so as not to hinder the operational activities of the Authority. be done. Also, the relevant corrections should be made in the financial statements of the next year.

(e) Since a sum of 1.61 million receivable from the Shadow Management Corporation for the repair of the elevators carried out by the Authority at the Angulana Apartment Complex was accounted as maintenance expenses inappropriately, the expenses of the Authority had been overstated by that amount and the receivable balance had been understated by that amount. The steps will be taken to correct this in the financial statements of the year 2025. Receivables and expenses should be accurately accounted and this adjustment should be made in the financial statements of the subsequent year.

(f) Although the depreciation value of furniture and equipment for the year under review was Rs. 0.899 million, and since it had been stated as Rs. 2.090 million in the financial statements, the depreciation expense for the year had been overstated by Rs. 1.191 million and the surplus had been understated by that amount. This error that occurred in the calculation of the depreciation of fixed assets has now been identified and the actions have been taken to rectify it. The depreciation for the year should be accurately shown in the accounts and the actions should be taken to correct this error in the financial statements of the subsequent year.

1.6 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	The total loan instalment value due at the end of the year under review from 399 houses related to 07 housing projects provided by the Authority on relocation basis was Rs. 114.86 million, and it included a loan balance of Rs. 38.32 million to be recovered since a period of 3-5 years and a loan balance of Rs. 48.07 million which exceeded 05 years. These balances had been 33 percent and 42 percent from the total loan instalment value respectively.	The loan beneficiaries with outstanding loans more than 05 years have been referred for legal actions. The legal notices have been issued against 08 loan beneficiaries to date.	The steps should be taken immediately to recover the loan instalments due from the disposed houses, and the special attention should be paid for the recovery of loan instalments in housing projects during the review of the systems of the Authority, and the written instructions should be provided and the process should be monitored.
(b)	The total loan instalment value to be recovered at the end of the year under review from 227 houses in 09 housing projects provided by the Authority on a sales basis was Rs. 72 million, and it	It has been decided to start legal actions in the coming quarter against the beneficiaries who continue to refuse to make payments in an	Do

included a sum of Rs. 22.42 million to be recovered since a period of 2 - 5 years and Rs. 27.78 million which exceeded 5 years. The said balances had been 31 percent and 39 percent of the total loan instalment value respectively.

- organized manner and against other beneficiaries who are having arrears.
- (c) The approval had been received by the Cabinet Decision to recover 25 percent from the total value of a house as a down payment during the disposal of Lunawa housing units, and to provide the loan payment facility to the beneficiaries for the remaining 75 percent in cooperation with a state bank within 25 years, and to recover the said 25 percent amount to the Authority within 3 months. However, the full value of the houses had been received only from 177 housing beneficiaries as at 31 December 2024 from this housing project which was declared opened for the use of the public on 09 April 2021, and the value to be recovered from 179 housing beneficiaries has amounted to Rs. 473.02 million.
- Since there is a possibility to issue deeds, the actions will be taken to collect the remaining arrears, motivating the said task.
- Do

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Urban Settlement Development Authority Act No. 36 of 2008	Although this authority has been established to formulate a national policy related to urban settlement development and to ensure its implementation, the authority has not been able to formulate and implement a national policy even if 17 years have passed since its establishment.	During the discussion held at the Prime Minister's Office on 30 January 2025 regarding government-owned non-commercial institutions, it had been proposed to study comprehensively the responsibilities assigned by the Act to the 03 institutions called Urban Development Authority, the National Housing Development Authority, and the Urban Settlement Development Authority, and the aspects such as its current functions,	A national policy should be formulated and implemented in accordance with the Act and further actions should be taken as per the Section 29 of Chapter XLVIII, Part II of the Establishments Code regarding the officers responsible for not fulfilling a requirement of the Act.

performance, staff, assets and liabilities, and management, and to assign the tasks duplicated by these 03 institutions to one institution as well as to merge the Urban Settlement Development and the Urban Settlement Development Authority. The attention of the Board of Directors has been focused on temporarily suspending the preparation of this Urban Settlement Policy until the recommendations of the committee formed under the chairmanship of the Secretary to the Line Ministry are received.

- (b) Paragraphs 13.1.2 and 13.4 in Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka
- Although the officer recommended for acting appointment should have the qualifications to act in a vacant post as per the approved recruitment scheme, the officers not having the relevant qualifications had been appointed to act in the posts of Director (Engineering), Assistant Director (Lands) and Assistant Director (Research and Development) in the year 2021. Also, the above officers who did not have the required experience for the posts had been confirmed in those posts by the Director Board Decision No. 02/2023/12 dated 21 February 2023 and those officers who did not have the qualifications had also performed the duties in the relevant posts in the year 2024.
- The steps have been taken with the approval of the Board of Directors to confirm the above officers; who have fulfilled the necessary educational qualifications and professional competencies, in the said posts through a Performance Review Committee based on the results of the evaluation and formal interview as per the powers vested in the Board of Directors for the recruitment of staff in terms of Section 20 (1) of the Urban Settlement Development Authority Act, No. 36 of 2008.
- The officers should be appointed to and confirmed in the relevant posts in accordance with the approved recruitment procedure as per the provisions specified in the Establishments Code, and further actions should be taken against the officers who do not comply with the approved procedure in line with the Section 29 of Chapter XLVIII, Part II of the Establishments Code.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a surplus of Rs. 160.88 million, and the corresponding surplus in the preceding year amounted to Rs. 210.59 million. Accordingly, a deterioration of Rs. 49.71 million was observed in the financial result. This deterioration had been caused mainly due to the absence of housing disposal profits in the year under review, a decrease in interest income by Rs. 73.41 million and an increase in development expenses by Rs. 24.53 million compared to the previous year.

2.2 Trend Analysis of major Income and Expenditure items

According to the information included in the financial statements presented, the following observations were made based on the analysis made relating to the financial result of the year under review and the preceding year.

Description	2024	2023
	Rs. Million	Rs. Million
<u>Income</u>		
Treasury Grants – Recurrent	174.07	151.49
Profit from Housing Projects	-	24.54
Interest Income	161.95	240.36
<u>Expenditure</u>		
Personal Emoluments	121.43	119.74
Development Expenses	34.14	9.61
Surplus	160.88	210.59

51.65 percent of the total income of the Authority had been generated from government grants and 48.35 percent from operating activities during the year under review, the net cash flow generated from operating activities according to the cash flow statement remained at a negative value of Rs. 3.098 million and Rs. 26.139 million in the year under review and the previous year respectively. Accordingly, it was observed that the institution did not have sufficient working capital to carry out its operations.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Due to the non-completion of land acquisition activities and the delay in obtaining condominium certificates, deeds had not been issued to the house owners for 1115 housing units out of 1719 housing units constructed on the relocation and sales basis implemented by the Authority by the end of the year under review.	The acquisition of 03 lands where the Housing Projects are located, the acquisition of which has not yet been completed, is being carried out. Since they were built and handed over to the public 10 years ago, it has become problematic to meet the current requirements for obtaining the condominium completion certificate. In order to solve the technical issues and dispose of the condominium properties in a timely manner, the Secretary to the Line Ministry has given instructions at a meeting held at the Ministry on 16 January 2025 regarding the re-enactment of the “Apartment Ownership (Special Provisions) Act, No. 04 of 1999 with amendments.”	The issuance of deeds to house owners should be carried out without delay, and as this is a key area within the role of the Authority, more attention should be paid in this regard in reviewing the systems.
(b)	As per the Cabinet Decision No.CP/20/1844/306/055 dated 22 December 2020, the sale price of the housing units should be determined by adding 20 percent to the valuation of the Government Valuer, and housing units should be disposed of accordingly. Contrary to this, the Government had lost Rs. 20.68 million due to providing houses to 24 officers of the Authority by charging only the Government valuation as the sale price of a house, as per the Board approval. Further, the Authority should have received Rs. 92.09 million from the housing units sold to the staff of the Authority by the end of the year under review.	The sale value of a housing unit has been calculated by adding 20 percent overhead costs to the Government valuation. At the request of the employees of the Authority who do not have a permanent house, approval was obtained by Board Paper No. 01/2021/15 to dispose of houses to eligible employees at an annual interest rate of 2 percent for a maximum period of 25 years without charging the 20 percent service charge added in determining the average sale price. On the above basis, all employees have entered into agreements with the Authority on the basis of deducting the amount of Rs. 95.34 million due to the disposal of houses from the monthly salary of the employees for the next 25 years.	Action should be taken to recover a reasonable amount from housing units in accordance with the decision of the Cabinet of Ministers.
(c)	Even though the Authority could have earned rent income by leasing 67 Sahaspura commercial units worth Rs.	In accordance with the Board approval No. 03/2025/05 dated 21 March 2025, for the formal disposal of the commercial and service units of the	The Authority should take action in accordance with the approved rules and

- 44.78 million and 57 service units whose value had not been determined, the Authority had lost that rent income due to the Board of Directors' decision to dispose of the condominium management to a management corporation under the Authority on a free grant basis.
- Sahaspura multi-storied housing Project based on the government valuation, the relevant letters related to enter into an agreement have been forwarded for the disposal of those commercial units on a long-term lease basis.
- regulations to generate income from the commercial units.
- (d) For the proposed Middle Income Housing Project to be implemented by the Urban Settlement Development Authority, 07 officers were recruited and retained by extending the contract period based on the approval received from the Director General of the Department of Management Services, letter No. DMS/7777/MIHP dated 02 November 2020, for the recruitment of staff on a contract basis. A sum of Rs. 2.580 million was paid in salaries and allowances in the year 2024 for this purpose. Due to the failure to find investors, this project has not been implemented to date, and there was no specific task for them to perform.
- Due to the absence of subject matter experts, such as Building Services, quantity Surveyors, Town Planners, etc., in the permanent staff of the Authority, it has become essential to maintain this Unit and carry out the relevant functions of the Engineering Services and Construction Division of the Authority. Therefore, this staff has been attached for the above duties of the Authority at present. Therefore, this Unit has obtained the relevant approvals for the following housing projects and further work has already been initiated for many of the projects. Project proposals for this project were called on 24 February 2025. No investor came forward in this regard. It takes considerable time to work according to the existing evaluation and approval procedures for the projects and it will also take some time for the procurement procedure.
- The officers responsible for the recruitment and continued retention of staff for projects for which investors have not even come forward, extending the contract period, should be identified and further action should be taken.
- (e) Contrary to the Cabinet Decision No. CP/20/1844/306/055 dated 22 December 2020, the possession of three housing units in the Lunawa Housing Scheme worth Rs. 9.3 million had been handed over without recovering the sale price in accordance with the agreements.
- The sale agreement signed with the buyer of the housing unit regarding the handover of the possession of the house has also been amended to include additional conditions, creating a legal obligation between the buyer and the Authority, and the possession of the house has been handed over. Since the conditions of the agreements have not been fulfilled so far, notices of termination of occupancy have been sent.
- Action should be taken to recover the sale proceeds from the houses and action should be taken against the officers who have not complied with the approved rules and regulations in accordance with paragraph 29 of Chapter XLVIII, volume II of the Establishments Code.

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>A lady officer has been appointed as Assistant Director (Legal) on a permanent basis for the Legal Division of the Authority, and the relevant scope included “drafting agreements on behalf of the Authority and performing all notarial duties such as certification of such documents”. However, as per Board Paper No. 05/2024/11, approval was given to assign a retired lady officer from the Authority to perform the tasks up to the preparation and registration of the title deeds of the Lunawa house beneficiaries and to pay 1 percent of the house sale value to this officer as notary fees, i.e. Rs. 799,200 had been paid by the house beneficiaries. The Acting Director (Finance), who pointed out that this payment was not correct in view of the above, was removed from that post, and another officer was appointed to that post, and the payment has been made. Although the Director General had responded in a letter dated 27 December 2024, to the inquiry made by the Commission to investigate Bribery or Corruption in this regard on 21 October 2024, that this error had been corrected, the Board of Directors' decision dated 01 September 2024 had not provided any provision to recover this loss or to indicate that the removal of the former Acting Director from that position was not correct.</p>	<p>The notary procedures for issuing the deeds for the Lunawa Housing Project have been carried out in compliance with rules and regulations as per the Board Decision No. 11/2024/02. However, as stated in the audit query, approval has not been obtained from the Board of Directors for the payment of 1 percent of the notary fee of the house sale value to an external party by the Authority and no such payment has been made by the Acting Director (Finance). However, the appeal made by this officer was submitted to the Board of Directors, and the Board Decision bearing No. 01/2025 was to call applications internally for the post of Director (Finance) and take action to fill the vacancies. Even though the approval has been sought in this regard from the Secretary to the Ministry, the necessary approval has not been received so far. The Authority has informed the Secretary to the Ministry in writing on two occasions.</p>	<p>An inquiry should be conducted in accordance with Section 29 of Chapter XLVIII of Volume II of the Establishments Code and action should be taken to promptly recover the loss incurred by the government.</p>

3.3 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
<p>The Moratuwa Lunawa Housing Project, which was implemented as a Design and Build project, was handed over to the public after 6 months, and upon complaints that water was leaking from the walls of the houses, the Authority had taken action to obtain Rs. 41.38 million</p>	<p>The updated bank guarantee relating to the retention monies of the Lunawa Housing Project was provided by the State Engineering Corporation on 10 July 2024, and an inquiry was made to the Attorney General's Department on 28 February 2025 for necessary</p>	<p>Action should be taken to solve the technical issues and properly dispose of the property without delay.</p>

from the sale proceeds of the houses for the renovation work, with the approval of the Board of Directors. However, the renovation work had not been completed to date. Further, the Authority had not taken action to recover any money from the State Engineering Corporation, the contractor of this project, and the State Development and Construction Corporation, the project manager, for these defects. The Authority had also paid Rs. 6.43 million to the Project Manager for this project.

instructions on whether there is a possibility of converting the bank guarantee relating to the retention money into cash to cover the cost of waterproofing the external walls. Therefore, further action will be taken as per the instructions received from the Attorney General's Department.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
<p>The following tasks to be performed in accordance with the Urban Settlement Development Authority Act, No. 36 of 2008 to achieve the objectives of the Authority had not been included in the Corporate Plan:</p> <ul style="list-style-type: none"> • Conducting surveys and studies relevant to identifying the economic and social status of urban residents. • Implementing nationally relevant urban housing loan schemes. 	<p>The above-mentioned tasks have already been included in the strategic plan. The Housing Improvement Loan Program has been included under activities on page 45 of the Strategic Plan 2025-2029 of the Urban Settlement Development Authority.</p>	<p>Action should be taken to include the tasks mentioned in the Act in the Corporate Plan and carry out those tasks annually through the Action Plan.</p>

4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
<p>(a) Even though it was expected to achieve 100 percent progress in identifying lands for development projects by December 2024, no physical or financial progress had been achieved by the end of the year 2024.</p>	<p>Letters have been sent to District Secretaries and Governors covering all District Secretariats and Provinces of the island to provide details regarding suitable lands for the implementation of new development projects. Accordingly, reply letters are being received. Field inspections are scheduled to be carried out based on that information.</p>	<p>When preparing the Action Plan, its tasks and goals should be set on a realistic basis, and immediate action should be taken to achieve those goals.</p>

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| (b) | According to the 2024 Action Plan, none of the works planned to be implemented in the housing projects of Sinhapura, Thalawathugoda, Kaduwela and Athurugiriya during this year had been implemented by the end of the year. | Necessary actions are being taken to obtain the necessary certificates to be obtained from the relevant institutions for these projects. | Do |
| (c) | Five tasks expected to be completed in the Anuradhapura Thuru Ithurugama Housing Project had not been completed by the year 2024. | Even though funds were allocated under the 2024 Annual Action Plan for the repairs to be carried out in the houses that were taken over again after legal proceedings were carried out by the Legal Division in the year 2024, no need arose to carry out the relevant work due to the fact that no houses were taken over in that year. | Do |
| (d) | No physical progress had been made in the construction of the water supply system and house renovation works of the Thalawakelle Housing Project, which was expected to be completed in 2024 at a cost of Rs. 1.10 million allocated through internal earnings. | Since there is a legal case with the Land Reform Commission and a third party regarding the land of this Housing Project, it has not been possible to carry out the relevant renovations. | Do |
| (e) | Even though Rs. 4.27 million was allocated for the first phase of the Chilaw Housing Project for the renovation of houses and the issuance of deeds, the physical progress was very low at 0.004 percent, and there was no financial progress. | Even though the procurement activities for the physical construction activities of this project were carried out, since a single bid had not been submitted, the relevant renovation activities could not be carried out in 2024, and the houses of the housing project have been provided to the beneficiaries for a payment period of 30 years. Since the beneficiaries have made the relevant payments, the issuance of deeds will be carried out after the full payment is completed. | Procurement plans should be prepared, and implemented so that the expected performance can be achieved, and estimates of the cost of issuing deeds should be prepared based on the time given to the beneficiaries to make payments. |

4.3 Internal Audit

Audit Issue	Management Comment	Recommendation
<p>Only the post of Internal Auditor had been approved for the Audit Division within the approved cadre, and this had also been pointed out in the previous Auditor General's reports. However, action had not been taken to strengthen the Internal Audit Division even during the year under review, and the post of Chief Internal Auditor had continued to be maintained as a Middle Management (MM) level post, and only two Audit Officers had been attached to that Division.</p>	<p>Approval has been obtained for the creation of new posts for Senior Management Level (HM 1-1), and Junior Management Level (JM 1-1) posts in the Internal Audit Division as per Board Paper No. 01/2023/05.</p> <p>In accordance with the letter sent by the Ministry of Urban Development and Housing to create posts related to the Audit Division, the forms and requests for approval and recruitment of new posts have been forwarded to the Department of Management Services and the Prime Minister's Office.</p>	<p>In accordance with the Board decision, Treasury approval should be obtained for the staff of the Internal Audit Division, and action should be taken to recruit them without delay.</p>