

Urban Settlement Development Authority - 2013

The audit of financial statements of the Urban Settlement Development Authority for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income and expenditure statement, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 17(2) of the Urban Settlement Development Authority Act, No.36 of 2008. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed Report in terms of Section 13(7) (a) of the Finance Act will be issued in due course.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Urban Settlements Development Authority as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Authority

The following observations are made.

- (a) Even though the initial capital of the Authority should have been Rs.5,000 million and it should be paid in installment basis from the Consolidated Fund in terms of Sub-section 16(3) of the Urban Settlement Development Authority Act, No. 36 of 2008, the capital had not been built up in that manner even up to the end of the year 2013.
- (b) All moneys collected as service charges from the property developers by the Urban Development Authority should be credited to the fund of the Urban Settlement Development Authority for financing the Low Cost Housing Programmes in terms of provisions of Sub-section 16(e) of the Urban Settlement Development Act. Nevertheless, according to the Cabinet Decision No. 10/2951/504/012 dated 14 December 2010, the recovery of those service charges by the Urban Development Authority had been ceased and as such the Urban Settlement Development Authority had been deprived of its main source of income. As such, an uncertainty prevails in the going concern of the Authority without other financial assistance of the Treasury or the Government.

2.2.2 Accounting Standards

The following deficiencies were observed.

- (a) Even though all details relating to the financial statements should be presented comparatively in terms of the Sri Lanka Public Sector Accounting Standard 1, details indicated as notes in the balance sheet and the Income and Expenditure Account and the comparative figures relating to the cash flow statement had not been disclosed.
- (b) The statement of changes in net assets/equity with changes of the year preceding the year under review had not been prepared in terms of Sri Lanka Public Sector Accounting Standard 2. Further, contrary to this standard, gratuity provision amounting to Rs.4,605,241 and current liabilities amounting to Rs.199,332,113 as deferred income grants had been included in the statement of changes in net assets/equity.

2.2.3 Accounting Deficiencies

The following deficiencies were observed.

- (a) A sum of Rs.13,761,694 obtained from the National Housing Development Authority for repairs of Sahaspura and Sinhapura Housing Project and mobilization advances amounting to Rs.13,766,209 paid to the contractor had not been brought to account as a current liability and a current asset respectively. Receipts and payments had been set off against each other and the difference of Rs.4,515 had been brought to account as development expenditure instead.
- (b) The value of the work-in-progress had been understated by Rs.69,656,856 due to accounting a different value than the certified work value with Value Added Tax of the bills belonging to Angulana Phase 1 and Phase 11 and Lunawa projects for the year under review.
- (c) Instead of being brought to account, the advance amounting to Rs.9,900,000 received for 33 recipients of houses of Angulana Housing Project, who were not granted houses as at 31 December 2013 as received in advance, had been identified as an income of the year under review.
- (d) Sixty three houses constructed under the Government grants at a cost of Rs.50,386,790 of the Anuradhapura Housing Project had been sold for Rs.39,713,310. The loss of Rs.10,673,480 occurred as a result had not been written off against the grant. The cost should be omitted from the Work-in-Progress Account and the amount recoverable transferred to the Housing Debtors Account, but only an installment of Rs.940,500 recoverable for the year under review had been credited to the Work-in-Progress Account. Accordingly, Work-in-Progress Account had been overstated by Rs.38,722,810 and the Housing Debtors Account had been understated by Rs.39,713,310 in the accounts.
- (e) Housing loan instalments amounting to Rs.217,551 recovered in the year under review for 63 houses distributed in the Anuradhapura Housing Project had not been brought to account in a fund in terms of the Act.
- (f) Government grants of Rs.1,408,558,466 received for Housing Development Projects had been shown as non-current liabilities.
- (g) Certain items of the Cash Flow Statement had not tallied with the other statements as shown below.
 - I. A sum of Rs.28,240,483 obtained from the Ministry shown as operating income in the Income and Expenditure Account had been shown as receipts from investment activities in the Cash Flow Statement.
 - II. Even though according to the Cash Flow Statement, the value of purchase of fixed assets amounted to Rs.1,409,483 , as per Note no.1 in the balance sheet, the said value was Rs.764,013. As such the cause for the difference of Rs.645,470 was not revealed.

(h) Even though the retention money amounting to Rs.45,491,256 of Phases I and II of the Angulana Housing Project had been released on a Bank Guarantee, no disclosures whatsoever had been made in the financial statements in this connection.

2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

Payments of Rs.12,500 each had been made to an employee of a State Corporation instead of the bonus amounting to Rs.10,000 payable on profits received in the financial year 2012 contrary to the Management Services Circular No.49 of 24 December 2012 . As such, a sum of Rs.230,000 had been overpaid to 92 employees at Rs.2,500 each.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority for the year ended 31 December 2013 had resulted in a surplus of Rs.6,032,874 as compared with the corresponding surplus of Rs.11,619,000 for the preceding year, thus indicating a deterioration of Rs.5,586,126 in the financial result. Decrease in income by Rs.14,610,184 and increase in administrative expenditure by Rs.2,683,335 had mainly attributed to this deterioration.

4. Operating Review

4.1 Management Inefficiencies

Even though the Real Estate Exchange (Private) Company should be liquidated and assets, liabilities and staff of this company transferred to the Authority immediately after the establishment of the Urban Settlement Development Authority according to the Cabinet Decision No. ୧୦୯/07/0140/226/013 of 22 February 2007, only the absorption of the staff had been done even by November 2014.

4.2 Expenditure contrary to the Objective

Out of Rs.40 million granted for Jana Sevana Swashakthi Participatory Environmental Programme by the Ministry, a total of Rs.14,034,223 including expenditure of Anuradhapura Housing Project of Rs.2,145,123, transport expenditure of Rs.7,060,430 and the expenditure of the opening ceremony of the project of Rs.4,828,670 had been incurred contrary to the objective.

4.3 Personnel Administration

The approved cadre as at the year under review had been 111 and the actual cadre had been 98 including 11 employees without approval. Accordingly, 24 vacancies existed.

5. Accountability and Good Governance

5.1 Action Plan

According to the Corporate Plan prepared relating to the period from 2011 – 2016, it had been planned to construct 1000 houses in Colombo and suburbs and 2000 houses in urban areas at an estimated cost of Rs.3000 million under Objective No.5 in the relevant period.

As such, an Action Plan had been prepared with a cost estimate of Rs.700 million for those projects for the year under review. According to the Action Plan implemented in the year under review, the project for the construction of 1000 houses in Colombo and suburbs had not been included and a sum of Rs.606 million had been provided to construct 764 houses in other urban areas of Lunawa, Angulana, Chilaw and Talawakelle.

As such, the Action Plan implemented in the year under review had not been prepared in compliance with the objectives of the Corporate Plan and the progress of fulfilling objectives of the Corporate Plan had not been reviewed annually.

5.2 Budgetary Control

Significant variances were observed between the budgeted and actual details, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Tabling of Annual Reports

The Annual Reports for the years from the year 2009 up to the year under review had not been tabled in Parliament even by August 2014.

6 Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- i. Preparation of Bank Reconciliations
- ii. Accounting
- iii. Control of Cost
- iv. Utilization of Vehicles
- v. Personnel Administration
- vi. Contract Administration
- vii. Progress Review