

Urban Settlement Development Authority - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Urban Settlement Development Authority for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 and its subsidiary as at 31 December 2018, 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 Standard (SLPSAS)

Audit Observations

Even though the Authority had charged amounting to Rs.1.08 million from 2 housing schemes as loan instalments during the year under review, the value of that assets had not been shown in the financial statements according to section 14 of the SLPSAS – 07.

Management Comment

Action had been taken to show the value of the assets in the financial statements after being made adjustments for the loan instalments recovered from all housing schemes, to the assets as required.

Recommendation

Since the benefits of the housing schemes are received by the Authority, as per the standard those housing schemes should be accounted as assets of the Authority.

1.5.3 Accounting Policies

Audit Observation	Management Comments	Recommendation
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(a) The depreciation had not been computed relating to 4 fixed assets items valued at Rs.36.49 million and action had not been taken to identify those assets in detail.	Action had been taken to account the depreciations correctly and those assets will be revalued and their new values expected to be brought to the account.	The assets of the Authority should be accurately identified and action should be taken to identify the depreciation expenditure accurately.
(b) According to the accounting policy No.1.1.3 (11), it had been indicate that the non – current assets are revalued in every 5 years period. However, none of the assets had been revalued up to end of the year under review.	Attention has been drawn to revalue the assets at present and necessary action is being taken.	According to the accounting policies/ standards, the property plan and equipment should be revalued periodically.

1.5.4 Accounting Deficiencies

Audit Observation	Management Comments	Recommendation
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(a) The loan instalments receivable from 21 house holders as at end of the year under review from the Anuradapura “Thuruithurugama green settlement project” had not been shown in the financial statements. Only the loan instalments received during the year under review amounting to Rs.361,700 had been shown in the financial statements as other income.	According to the decision taken by the Authority to revise the Thuruithurugama housing project’s agreements in 2015, the receivable loan instalments from the beneficiaries those who had not singed revised agreements could not be identified due to non availability of basis and it had included in debtors stock. As well, those loan instalments had not been included in the other income.	The agreements should be singed with recipients of houses and action should be taken to show the receivable loan instalments in the financial statements.

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| <p>(b) The Provision for doubtful debts for the year under review amounting to Rs.1,653,578 had been provided only for the outstanding debtor balance as at end of the year under review for the scattered housing loan programme amounted Rs.33,071,556. However, the provision for doubtful debts had not been made for other outstanding debts amounting to Rs.95,110,286. Further, the Authority had not identified the manner of which the doubtful debts should be provided for that debtor balances.</p> | <p>Except the scatered loan programme, the other loan programmes that implemented by the Authority are housing loan schemes. Until payment of final loan instalment, the ownership of the Properties are belonged to the Authority. Hence, the provision for doubtful debts had been made only for the scatered loan programmes.</p> | <p>According to the accounting policy of the Authority the provision for doubtful debts should be made for the total outstanding debts.</p> |
| <p>(c) The value of 09 houses, which had been constructed under the sudaraka technology at the Thuruithurugama Region in Anuradapura, and the lands belonging to them had not been shown under the lands and buildings in the statement of financial passion. As a result, the value of the lands and buildings in the statement of financial position had been understated by that amount.</p> | <p>Action will be taken to make relevant corrections in future.</p> | <p>The fixed assets should be valued and accounted.</p> |
| <p>(d) Due to not accounting of outstanding creditor balance as at end of the year under review</p> | <p>Due to delaying the preparation of the final bill of this contract relating to the work</p> | <p>The payable balances should be shown under the current liabilities in the statement of financial position.</p> |

- amounting to Rs.444,382, the current liabilities in the statement of financial position had been understated by that amount.
- done, the payable amount could not be identified. Hence, that had not been accounted in the relevant year.
- (e) A sum of Rs.5,423,025 received from disposing of 3 motor vehicles during the year under review and preceding year had been credited to the Consolidated Fund and that amount had been stated as an expenditure of the Authority. As a result, the deficit of the Authority for the year under review had been overstated by that amount.
- According to the accounting procedure applied by the Public Enterprises relating to the dispose of assets, the net profit or loss on disposal of assets has been identified at the final stage. In addition, action will be taken to make corrections relating to the credited amount to Consolidated Fund as per the instructions of audit.
- After being identified the net profit/ loss on disposal of assets, only that value should be shown in the statement of financial performance. The credited amount to the Consolidated Fund should be adjusted to the Equity of the Authority.
- (f) Due to giving of 161 houses in 2 housing projects at lower than the cost, on the free granting basis, a sum of Rs.62,937,739 had been written-off from the Treasury grants during the year under review. However, the Treasury approval had not been taken thereon.
- To obtain the covering approval of the Treasury for writing-off the Agulana Housing Project, had been referred to the Ministry of Housing Construction and Cultural Affairs. To provide the housing grants for 39 families in the Rajagama project, those who affected by the Tsunami Victim, the Cabinet approval had been obtained from the Cabinet paper No.17/2S/7S/736/047.
- The general Treasury approval should be obtained for the written-off of construction costs incurred through the General Treasury Grants.
- (g) The Treasury grants amounting to Rs.25 million received to the Authority in 2013 for
- Action will be taken to correct the recording error that occurred when transferring of
- Releasing of the received Treasury grants back to the Treasury should be correctly identified and accounted.

Trincomalee Housing Project had been sent back to the Treasury again in the year 2015 and due to an accounting error, out of the above amount, a sum of Rs.5 million had been deducted from the Agulana Housing Project's cost. However, action had not been taken to correct that error in the financial statements up to end of the year under review. As a result, the cost of that housing project had been understated by that amount.

fund to the Treasury again in 2015, that received relating to the Trincomalee project amounting to Rs.25 million.

1.5.5 Going concern of the Authority

Audit Observation

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 instalment basis, no capital had been provided to the Authority up to end of the year 2018. As well, in terms of sub-section 16(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 should be credited to the Urban Settlement Development Authority Fund. However, according to the Cabinet Decision made on 14 December 2010, No.10/2951/504/012, collection of the service charges had been terminated. Thus, the Authority had losted its main source of income.

Management Comment

A cabinet paper had been furnished to obtain the initial capital of Rs.5,000 million and to reactivate the terminated collection of service charges from the property developers. A cabinet decision had not been made so far relating the reactivate the service charge collections. Even though the Urban Development Authority had agreed to pay the arrears of the service charge amounting to Rs.207 million, it had been stated that due to the current financial position of that Authority, it was unable to pay that arrears.

Recommendation

According to the requirement of the Act, action should be taken to obtain the initial capital, after being discussed with the Treasury. Out of the total income of the Authority, 90 per cent received as the Government grants and only 10 per cent generated from the operations of the Authority. To enhance this situation, necessary action should be taken, after having discussion with the Ministry and the Treasury.

1.6 Accounts Receivables and Payables

1.6.1 Account Received

Audit Observation	Management Comment	Recommendation
<p>(a) The receivable loan balance of first stage of the scattered housing loan programme amounting to Rs.25,705,704. Out of that balance, a sum of Rs.6,363,755 was outstanding for a period ranging from 1 to 2 years and a sum of Rs.11,291,740 was outstanding for over 2 years. Further, under the second stage of that programme, outstanding loan instalments amounted to Rs.7,365,852. Out of that, a sum of Rs.2,119,094 was outstanding for a period from 1 – 2 years and sum of Rs.1,542,744 was outstanding for over 2 years.</p>	<p>Action had been taken to proceed the legal actions against the loan defaulters of the loan programme implemented on behalf of the low income persons.</p>	<p>Adequate action should be taken to recover the outstanding loan instalments.</p>
<p>(b) Even though the rent income of the Agulana housing scheme for the year under review amounted to Rs.11,330,355, the recovered rent income during the year under review amounted to Rs.923,537. Thus, unrecovered rent income of the Authority was 92 per cent, out of the total rent income.</p>	<p>Attention had been drawn to promote the loan recovering process of the Agulana Saurapura apartment housing project and attention had been drawn to taken legal action against the loan defaulters.</p>	<p>The control systems of the collection of rent income should be strengthen.</p>
<p>(c) Even though a sum of Rs.2,054,917 should be receivable from 99 houses for the year under review in the Thuruithurugama housing project and form the houses given under the resettlement basis, only a sum of Rs.1,047,338 had been recovered. Thus, unrecovered balance was 51 per cent, of the total receivables.</p>	<p>Attention had now been drawn to complete the signing of agreements of the Thuruithurugama housing scheme and action had been taken to proceed the legal actions against the violators of contract agreements.</p>	<p>Adequate actions should be taken to recover the loan instalments.</p>

- (d) The retention money as at end of the year under review totalling Rs.1,299,416 and of that amount, a sum of Rs.1,188,855 was existed for a period from 1 year to 5 years. A sum of Rs.110,561 was existed as unsettled for over 5 years.
- Attention had been drawn to increase the loan recovering and the attention was also drawn to assigning of separate group employees in order to recover the loans considering as it an essential requirement.
- (e) The outstanding rent income from 2 housing projects as at end of the year under review amounted to Rs.8,882,175. Out of that, a sum of Rs.3,114,643 was remained as receivable for a period from 2 to 5 year and a sum of Rs.3,194,859 was remained as receivable for over 5 years. Further, outstanding loan instalments receivable from 3 housing projects given on selling basis amounted to Rs.33,353,705. Out of that balance, a sum of Rs.10,930,403 was outstanding for a period from 2 to 5 years and a sum of Rs.13,398,280 was outstanding for over 5 years.
- Attention was drawn to increase the recovering rate and attention was also drawn to appoint separate group of employees to manage the debts, since it has been identified an essential requirement.
- Immediate and adequate actions should be taken to recover the loan instalments and rent income.

1.7 Non – Compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulations etc	Non – Compliance	Management Comment	Recommendation
(a) Urban Settlement Development Authority Act No.36 of 2008	Even though the Authority had been established to prepare a National policy for Urban Settlement Development and to make guarantee for implementation of the policy, the Authority had failed to prepare and implementation of such a policy even after being lapsed of 10 years.	The National Policy drafted by the consultancy committee relating to the Urban Settlement Development, had not been accepted by the management. Hence, it has been decided to appoint new specialist committee to draft a new policy with the interference of the Ministry.	Adhering to the objectives of the Act, action should be taken to achieve the objectives.

(b) Financial Regulation of the
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| (i) FR 371(2) (b) | In order to settle the sub imprest amounting to Rs.1,264,256 given in 77 instances to 37 officers, had been taken a period from 35 days to 360 days. Further, exceeding advance payment limits, advances amounting to Rs.3,610,000 had been given in 14 instances. | Incurring of certain expenditure as decided by the top management, according to the situation, advances had only been obtained. At present, the top management had drawn their attention to pay the advances within the stipulated limits for advance issuing. | Action should be taken to surrender the advances given immediately after completion of desired works according to the Financial Regulations, and advances should be issued without exceeding the stipulated limits. |
| (ii) FR 770 | In terms of this Financial Regulation, action had not been taken to dispose 155 disposable items belonging to 40 categories identified at the Board of survey. | Disposing of items had been done as per the procedure applied by the Authority before. Nevertheless, according to FR 770 and General Format 47 disposal activities will be conducted. | The disposal activities should be carried out according to the Financial Regulations. |

2. Financial Review

2.1 Financial Results

The operation of the Authority for the year under review had resulted deficit of Rs.31,002,552 and as compared with the corresponding deficit of 19,844,291 for the preceding year thus indicating deterioration in the financial result by Rs.11,158,261. Increase of vehicle rent and a provision made for the distress loans were mainly attributed to the deterioration in the financial result.

2.2 Trend Analysis of Major Income and Expenditure Items

The following observations are made.

Compared with the preceding year, the salary expenditure (on contract basis) by 100 per cent, building repairing and maintenance costs by 240 per cent, other expenditure (supplies) by 280 per cent legal expenditure and payment of lease instalments by 155 per cent and 58 per cent respectively had been increased during the year under review. Except the Government grant received during the year under review and preceding 3 years, the net assets of the Authority had been become a mines value.

2.3 Ratio Analysis

Compared with the preceding, the net loss ratio was increased by 273 per cent and increase of vehicle rent expenditure, a provision made for distress loan had been mainly attributed for this situation.

3. Operational Review

3.1 Management Activities

Audit Observation	Management Comment	Recommendation
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(a) Action had been taken to acquire the lands from various institutions since the year 2011, extent of 12.32 hectares in which 863 completed and uncompleted housing units are located and belonging to 5 housing schemes. However, it had been failed to acquire the lands up to end of the year under review. It was further observed in audit that due to that reason delays were occurred to handover the deeds to the recipients.	<p>Due to the prevailing delays in the Government procedure for lands acquisition, the acquisition of land belonging to 5 housing schemes (Agulana, Singhapura, Wadulusevana, Lunawa, Talawakale) could not be finalized. The procedure that should be applied by the Authority for the acquisition of lands had been finalized. However, due to the delays in fulfilment of procedures by the land owners, the land acquisition activities could not be finalized completely.</p> <p>The land acquisition activities of Anuradapura, Chilow and Sahaspura had been completed. There are no barrier to give the deeds. The deeds relating to Sahaspura are being issued and some beneficiaries of Anuradapura, Chilow and Sahaspura had not been finalized their payments. Hence, it was unable to issue the deeds.</p>	Action should be taken to obtain ownership of lands to the Authority, in order to legally transfer the houses to the beneficiaries.
(b) Three hundred and eighty housing units had been constructed by the Authority as at end of the year under review incurring a sum of Rs.1,172 million at Lunawa Housing Scheme. However,	<p>Three family groups as mentioned below had been identified to dispose 356 housing units. The cabinet paper prepared in this regard had been referred to the Ministry.</p> <ul style="list-style-type: none"> • Resettlement basis 56 housing units 	According to the Cabinet decision, Urban Settlement familiars should be identified.

according to section 3 of the Cabinet paper submitted by the Minister of housing on 22 March 2012, action had not been taken to identify under facilitated Urban Settlers belonging to 356 families living in the Moratuwa Urban Municipal Council area.

- The persons show their competencies in the area of Sports, Arts and persons required special needs – 32
- Middle income beneficiaries in the Government, Semi Government and private sector – 268

(c) The Authority had failed to achieve financial or physical progress from 07 projects which expected to be implemented under the Treasury grants amounting to Rs.1,270.08 million up to end of the year under review.

Due to not granting of the approvals/ recommendations on the estimated cost (National Planning Departments recommendation, the Cabinet approval), only the human resource development programme could be implemented using the received Provisions and based on the approvals granted and the physical and financial progress of the Human Resource Development programme were 83 per cent and Rs.19.96 million respectively as at 31 December 2018.

The activities of the planned projects should be implemented according to the relevant plans.

3.2 Operational Activities

Audit Observation	Management Comment	Recommendation
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(a) The Talawakale Lidula Housing Project : The Treasury Provisions amounting to Rs.84.5 million had been approved to construct 100 housing units under this project and the project had been commenced in the year 2013 and scheduled to be completed in the year 2014. The following observations are made in this regard.		

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| (i) Due to not handing over of 54 completed houses to the beneficiaries since 4 years period up to end of the year under review, damages had been occurred and it was observed that the houses were in the renovation condition. | None of the houses, out of 54 houses had not been handed over to the beneficiaries legal or agreement basis. After being signed the agreements with the beneficiaries, the kees of the houses will be handed over before end of August 2019. | After being identified the beneficiaries, prompt action should be taken to reside the occupants in the completed housing projects. |
| (ii) Even though it had been planned to give 60 houses through the project on the resettlement basis, only 54 houses had been constructed. As well, the houses had been allocated to 10 irrelevant persons contrary to the project objectives, those who not come under the resettlement objectives. | In addition to the 44 persons those who have given houses on resettlement basis, 10 houses had been given to houses less persons, according to the collection on the Urban Council. | Action should be taken to achieve the physical targets and after being identified the beneficiaries based on regularise procedure, houses should be handed over. |
| (iii) Even though there was a shortage in Water Supply to this housing scheme, the Authority had not taken actions to provide an additional Water Supply line to the housing scheme up to end of the year under review. | Not commented | By providing basic infrastructure facilities related to the project, the basic facilities of the house holders should be improved. |
| (b) The agreements had not been signed with the 12 resettled house holders of the Anuradapura Thuruithurugama housing project and 09 house holders those who obtained the houses on selling basis. Even though 57 housing units had been constructed and given to the beneficiaries under the | The Court cases had been filed in Anuradapura Magistrate Court against 19 beneficiaries due to not signing of the additional ownership instalment payment agreements and defaulting the instalment payments. The beneficiaries in the Chilow Urban Housing Project had not | When transferring the houses to the beneficiaries, the agreements should be signed with them. |

Chilow housing project, the agreements had not been signed with 25 house holders up to end of the year under review.

signed the agreements and therefor, the legal action will be taken against them.

- (c) Even though it had been planned to commence construction works of the Kandy Mahiyawa Urban Housing Project at a cost of Rs.13.43 million in the preceding year, the construction works of the project had not been commenced up to end of the year under review.
- With obtaining of funds, the project could be commenced.
- The activities of the planned project should be performed as per the plans and the projects should be completed within the scheduled time period.

3.3 Transactions in Contentions Nature

Audit Observation	Management Comments	Recommendation
(a) Even though the Authority had transferred 45 housing units in the Agulana housing scheme valued at 134.03 million on free transfer papers, those transfers had not been conducted according to section 26 of the Urban Settlement Development Authority Act No.36 of 2008. Further, the Authority had failed to identify a procedure for disposing of houses up to end if the year under review.	In terms of Section 26(1) of the Urban Settlement Development Authority Act No.36 of 2008, the prior approval of the Minister had been obtained as the Authority to transfer the houses on the free transfer papers. Accordingly, the houses had been transferred. Action had been taken to prepare the procedure for disposing of houses of the Authority. The drafted procedure has been sent to the Legal Draftsmen.	Disposing of houses should be conducted according to the requirement of the Act.
(b) The loan given to the Hambantota housing loan project as at end of the year under review amounted to Rs.3,656,154. Without being obtained the Treasury or the Line Ministry approvals, it had been decided suspend the recovering of interest on that loans based only on the Board approval.	The attention will be drawn recover this money.	Suspend of recovering of loan interest for the loan amount given for the project should be enforced only on the approvals given by the Treasury and the Line Ministry.

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| (c) | <p>In order to enhance the living condition of the low income families living in the Urban areas, the Treasury had given a sum of Rs.2,082.40 million to the Authority for 08 housing projects and to give scattered housing loans up to end of the year under review from the year 2011 to 2018.</p> <p>The action had been taken by the Authority to recover the value of the houses and the instalments of the scattered housing loans, from the low income families, by utilizing the funds given by the Treasury. The loan instalments recovered by the Authority during the year under review amounting to Rs.13.85 million had been utilized for the recurrent expenditure of the Authority, without being credited that money to the Fund of the Authority in terms of section 16 of Urban Settlement Development Authority Act No.36 of 2008.</p> | <p>The so collected funds had to be utilized for maintenance and repairing activities of the Condominium houses given to the beneficiaries during the preceding years. However, action going to be taken to avoid this situation in future.</p> | <p>The loan instalments and inters collected by the Authority should be credited to the separate fund according to the requirement of the Act. The Treasury approval should be obtained to recover the interest on loan instalments from the low income families.</p> |
| (b) | <p>The provisions amounting to Rs.19.34 million had been received during the year under review for the Human Development Programmes. Out of that, a sum of Rs.3.24 million had been expended for the world settlement date.</p> | <p>According to the approved Action Plan of the Board of Directors and within the cash flow statement, the allocations received for Human Resource Development programmes had been expended.</p> | <p>The required fund for the world settlement date programmes should be obtained under that programme and the funds received for another purposes should not be used for that programme.</p> |
| (e) | <p>The Provisions amounting to Rs.63,819,532 had been given by the Treasury for the construction works in 2 projects up to end of the year under review. However, exceeding the above provision a sum of Rs.5,030,899 had been expended from the Authority's Funds.</p> | <p>Not commented</p> | <p>The expenditure should be incurred within the limits of the annual provisions.</p> |
| (f) | <p>Out of the Treasury grants received up to end of the year under review amounting to Rs.1,336.31 million for 2 housing projects, a sum of Rs.38.09 million had been incurred for other expenses deviating from the objectives.</p> | <p>Not commented</p> | <p>The Treasury grants should be utilized only for the relevant objectives.</p> |

3.4 Idle and Underutilized Assets

Audit Observation -----	Management Comments -----	Recommendation -----
(a) Eighty three housing units in 5 housing schemes of the Authority had not been resided for a period from 1 to 4 years and close down the houses. As a result, the rent income would have been collected by the Authority had been lossed.	To dispose those houses, the approval of the Minister had been requested until completing of construction works of 54 houses at Talawakele Project, the disposing activities could not be able to carried out. The disposing activities sheduled to be completed by August 2019.	The income that could be collected to the Authority should be earned, following a proper Plan.
(b) Five Jukey Machines purchased under the social enlighten Programme for Rs.184,995 in the year 2014 and 30 showing machines purchased for Rs.659,970 in the year 2016 had been laying idle without being distributed among the beneficiaries up to end of the year under review and the cost of those machines had not been included to the final stock.	Those showing machines were vested to the Administration Division and stores. According to the situation, the machines are distributed to the identified beneficiaries, 04 showing machines are kept in the stores and the remaining machines will be distributed following accelerated programme.	The equipment purchase under the social enlighten programme for distribution should be property distributed.

3.5 Procurement Management

Audit Observation -----	Management Comments -----	Recommendation -----
(a) According to the section 2.8.1 of the Government Procurement Guideline, no member should serve in both the procurement committee and Technical Evaluation Committee. However, in procuring of the furniture and office equipment for Rs.94,300, same members had involved to open the bids, bid evaluation and serve as procurement committee member.	Due to the vacancies in Management level posts, one officer had served to both committees.	The Government Procurement guidelines should be followed.

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| <p>(b) According to section 5.3.18 (b) of the Government Procurement Guideline, Value Added Tax (VAT) should not be considered for evaluation. However, the Authority had evaluated the bids with VAT. In such a manner, the Authority had given favaration to the bidders those who had not registered for VAT.</p> | <p>It has been informed to the officers that the bid evaluation procedure should be applied by drawing particular attention relating to the forthcoming procurements.</p> | <p>The Government Procurement guidelines should be followed.</p> |
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3.6 Contract Process

Audit Observation	Management Comments	Recommendation
<p>(a) Even though a sum of Rs.2.86 million had been given by the Authority to prepare the drainage lines of the Chilow housing project, that function had not been completed even up to end of the year under review and any physical progress had been achieved.</p>	<p>The construction works of the Chilow drainage line had been conducted base on a new plan according to the current requirements. After obtaining the approval of the Board Directors, the construction works expected to be started.</p>	<p>The projects implemented under the annual budget provisions, should be promptly completed within the relevant year.</p>
<p>(b) The contract period of the construction of the shopping complex and the garbage disposal unite of the Agulana Saurapura Housing Project had been terminated on 27 September 2016. However, actions had not been taken to complete the project's activities up to end of May 2019 and the Authority had failed to recover the advances amounting to Rs.2,803,447 paid to the contractor.</p>	<p>Not commented</p>	<p>Prompt action should be taken to complete the Project that had been implemented under the annual provisions.</p>
<p>(c) Even though it had been planned to complete the Lunawa Project during the preceding year by expending Rs.90 million, the project work had not been</p>	<p>Due to expanding of the scope and adding the new unites to the Lunawa Project, a Cabinet Paper had been furnished to the</p>	<p>Action should be taken to complete the Project works implemented under the Treasury Provisions within the scheduled time period.</p>

completed up to end of the year under review. Due to that reason, providing of houses to the beneficiaries had been delayed.

Ministry requesting the additional provisions of Rs.143.141 million. Based on the above approvals, it could be able to completed the additional works in order to hand over the Project to people.

3.7 The Recourses of the Authority Released to other Public Institutions

Audit Observation

Four officers had been release by the Authority to the National Housing Development Authority and to the State Engineering Corporation and a sum of Rs.386,043 had been paid as salaries of them during the year under review. However, only a sum of Rs.45,567 had been reimbursed up to end of the year under review.

Management Comment

Only one employee had been released from the service of the Authority up to date.

Recommendation

Prompt action should be taken to recover the receivables to the Authority.

3.8 Staff Administration

Audit Observation

(a) The approved cadre of the Authority as at 31 December 2018 was 158 whilst the actual cadre of that date was 142. Thus, 41 vacancies and 22 excess employees were in the staff of the Authority.

Management Comments

It is informed that vacancies will be filled in future. As well, the approval of the Management Services Department was referred regarding the excessive employees.

Recommendation

The approved cadre of the Treasury should be promptly recruited.

(b) According to the Public Administration Circular No.25/2014 dated 12 November 2014, 22 officers had been recruited to the Authority. However, action had not been taken by the Authority to include the posts to the approved cadre.

Action had been taken to refer the relevant information to the Management Services Department and the related letters had been referred time to time.

The approval cadre should be amended by adding the temporally recruited officers to the cadre.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation

The following activities which should be implemented by the Authority in terms of the Urban Settlement Development Authority Act No.36 of 2008, to achieve to the objectives of the Authority, had not been included to the Corporate Plan.

(a) Acquisition of lands belong to the Government and Local Government Authorities for the activities of the Authority.

(b) Conducting of surveys and examinations in order to identify the economic and social condition of the Urban Settlers.

(c) Implementing of the National Urban Housing loan schemes.

Management Comments

The plans have been prepared to include the Progress of the land acquisition progress and the details of acquired lands to the amended Corporate Plan prepared for the period of 2020 – 2022.

In order to identify the implementation requirement of Projects/ Programmes, the discussions have been conducted with the Census Department to carried an Island wide survey.

A housing loan programme has been implemented since the year 2012 having the relevant approvals through the Diriya Urban Housing Programme.

Recommendation

The expected functions in the Act, should be included to the Action Plan.

The expected functions in the Act, should be included to the Action Plan.

The expected functions in the Act, should be included to the Action Plan.

4.2 Action Plan

Audit Observation	Management Comments	Recommendation
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The activities implemented under the Treasury grants had only been included to the action plan of the year under review and the activities implemented from own income of the Authority had not been included to the Action Plan.	The Projects had not been identified for the year under review relating to the internal earnings.	All expected activities scheduled to be implemented during the year should be included to the Action Plan.

4.3 Internal Audit

Audit Observation	Management Comments	Recommendation
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The post of Internal Auditor had only been approved in the approved cadre for the internal Audit Division and this situation had been pointed out through the previous Auditor General's reports. However, action had not been taken to strength the Internal Audit Division even in the year under review and only 2 Management Assistants had been recruited to that Division.	As it approved only the Internal Auditor Post in the approved cadre, the proposals to develop the Internal Audit Division had been furnished to the Administration Division. However, no solutions had been submitted sofar.	The Internal Audit Division should be strengthen.

4.4 Budgetary Control

Audit Observation	Management Comments	Recommendation
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The Budget had not been used by the Management as effective Management control tool. Significant variances between 25 per cent to 395 per cent were observed when compared the budgeted expenditure with the actual expenditure. Hence, it was observed that the budget had not been used as an effective tool of Management Control.	The special attention is drawn by the Authority to manage the activities within the budgeted provisions.	The budget should be used as an effective Management Control tool.

4.5 Achievement of Sustainable Development Goals

Audit Observation

According to the “Agenda” of the United Nation’s Sustainable Development goals 2030, the every Public Institution should be performed their activities accordingly. However, the Authority had not that aware the manner of which conducting of its activities come under the scope of the Authority. As a result, the Authority had not identified its sustainable development objectives, targets and implementation plan for the achievement of targets and indicators to evaluate the performances.

Management Comments

Attention has drawn to 10 sustainable development goals to implement through the Programmes and Projects, to solve the housing problem through the Human Development Programme and to enhance the living condition of targeted community through Human Development Programme.

Recommendation

According to the United Nation’s Agenda, the sustainable development goals promptly identified.