

## **Urban Settlements Development Authority - 2010**

### **1. Financial Statements**

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#### **1:1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Urban Settlements Development Authority had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to the paragraph 1:2 of this report the financial statements have been prepared in accordance with the Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Urban Settlements Development Authority as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

#### **1:1:1 Initial Capital of the Authority**

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According to Section 16(3) of the Urban Settlements Development Authority Act, No. 36 of 2008 the initial capital of the Authority should be Rs.5,000 million and it should be paid in tranches from the Consolidated Fund of the Government. Nevertheless, the capital had not been built up in such manner even up to the end of the year 2010.

### **1:2 Comments on Financial Statements**

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#### **1:2:1 Going Concern of the Institution**

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According to Section 16(e) of the Urban Settlements Development Authority Act, No. 36 of 2008, all moneys collected by the Urban Development Authority as service charges from property developers should be credited to the Fund of the Urban Settlements Development Authority for financing the Low Cost Housing Programmes. Nevertheless, the Authority had not received such money after March 2010. In addition, according to the Cabinet Decision No. 10/2951/504/012 dated 14 December 2010 the collection of such service charges

by the Urban Development Authority had been ceased. Thus the Authority had been deprived of its major source of income and the going concern of the Authority depends on the financial subsidy from the Treasury.

### **1:2:2 Sri Lanka Accounting Standards**

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The following observations are made.

(a) Sri Lanka Accounting Standard No. 03

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The financial statements had been prepared contrary to the Standard as shown below.

- i. Set off of building rent payable against the service charges income receivable.
- ii. Non- rendition of the Statement of Changes in the Equity that should be presented as a part of the financial statements.

(b) Sri Lanka Accounting Standard No. 09

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The Cash Flow Statement had not been prepared in accordance with the requirements of the Standard.

(c) Sri Lanka Accounting Standard No. 16

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A Gratuity Fund had not been built up and the money thereof had not been invested.

### **1:2:3 Accounting Deficiencies**

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The following observations are made.

- (a) The provision for the additional sum of Rs.1,564,000 payable to the housing beneficiaries resulting from the delay in the completion of the 187 Watta Housing Project, had not been made in the financial statements.

- (b) A sum of Rs.200,785 payable for the purchase of fixed assets had been brought to account as Rs.257,100 thus resulting in an overstatement of Rs.56,315. Therefore, the depreciation for the year had also been overstated by a sum of Rs.11,263.
- (c) According to the Cabinet Decision No. CM/07/0140/226/013 dated 22 February 2007, the REEL institution should have been liquidated immediately after the establishment of the Urban Settlements Development Authority and the staff and assets should have been taken over by the Authority. Nevertheless, action thereon had not been taken even up to the end of the year under review. The Chairman informed that the taking over of the staff and the assets after the liquidation of the institution had been delayed due to the delay in the legal action and the existence of a large amount of liabilities of the company.

#### **1:2:4 Non-compliance with Laws, Rules, Regulations etc**

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The following non-compliance were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) Section 14(1) of the Finance Act, No.38 of 1971 and the Public Finance Circular No. PF/PE/21 of 24 May 2002.	The Draft Annual Report for the year under review had not been presented to audit with the annual financial statements.
(b) Financial Regulation (FR)	
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F.R. 133	The Authority had not established an Internal Audit Unit.

## 2. Financial and Operating Review

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### 2:1 Financial Review

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According to the financial statements presented, the operations of the Authority during the year under review had resulted in a surplus of Rs. 21,083,578 and after the elimination of the erroneous adjustment of the deficit of the preceding year to the income it amounted to a surplus of Rs.26,276,233. This represented an improvement of Rs.31,468,888 as compared with the deficit of Rs.5,192,655 for the preceding year. Nevertheless, it was observed that such favorable position was reflected due to not incurring expenditure out of the money received during the latter part of the year for development works.

### 2:2 Operating Review

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#### 2:2:1 Performance

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The following observations are made.

- (a) It was observed that none of the following projects included in the Action Plan of the Authority for the year 2010 had not been commenced. Nevertheless, the Chairman informed that such situation had arisen due to the non-receipt of the one percent service charges receivable from the Urban Development Authority.

Project	Number of Units proposed for implementation in 2010	Value Rs. (Million)
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Visiri Housing	2,750	340.0
Visiri Housing (Recurrent)	1,549	111.1
Cities without Shanties Programme (New)	200	20.3
Line Housing (Recurrent)	133	9.0
187 Watta Housing Flats	56	167.1
40,000 Housing Flats for City of Colombo	40,000	1,200.0
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Total		1,847.5
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- (b) It was, therefore, observed that the Authority had prepared an unrealistic Action Plan without carrying out a study on the possibility of obtaining financial provision.
- (c) Further, it was observed that the sum of Rs.85,219,680 shown in the financial statements as development expenditure did not constitute any expenditure incurred on any new project while it represented expenditure incurred on the continuation work of the preceding year.

### **2:2:2 Corporate Plan**

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A Corporate Plan for the Authority covering the year 2010 had not been prepared in terms of Section 5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

### **2:2:3 Audit and Management Committee**

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The Audit and Management Committee for the year 2010 had not been established in terms of Section 7.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

### **2:2:4 Uneconomic Transactions**

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The following observations are made.

#### **(a) 187 Watta Re-establishment Projects**

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- (i) Plans had been prepared for the construction of a housing scheme on a land 52 perches in extent belonging to the Urban Development Authority without a written agreement on securing the transfer of the land. In this connection, a memorandum of understanding had been entered into with 46 identified families and a sum of Rs. 4,600,000 had been paid to 46 occupants.
- (ii) According to Clause 7(iii) of the memorandum of understanding entered into between the Urban Settlements Development Authority and the relevant owners of houses on 02 December

2009. if the period of completion of the Project exceeds 12 months from the commencing date of the agreement, the Authority which is the first party to the agreement should pay a lump sum of Rs.33,500 within 10 months from the commencing date of the agreement to the second party to the agreement for each such excess period of 03 months or a part thereof. Even through a period of one year had already elapsed after signing the agreement, no development work had been started, the creation of a situation in which the second party demanding house rent or resorting to legal action against the Authority was observed.

#### **2:2:5 Management Inefficiencies**

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Even though the Authority had taken steps for the commencement of a housing project called 187 Watta, the Authority had failed to take any steps whatsoever for construction. Further the risk of facing a financial crisis in the future due to the contractual commitments entered into by the Authority was also observed. Thus it was observed that the Authority had acted without any understanding, efficiency and effectiveness in the management of public property.

#### **2:2:6 Human Resources Management**

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Even though about 02 years had elapsed after the establishment of the Authority, all 73 members of the staff other than the Chairman and the Director General of the Authority are deployed in service on contract basis. The Chairman informed that the approval for the cadre has already been received and that recruitment will be done expeditiously.

### **2:2:7 Irregular Transactions**

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The following observations are made.

- (a) The Authority had spent a sum of Rs.2,457,511 during the year for the procurement of motor vehicles on hire basis. The provisions of Circular No. MPDI/MPRD/VEH dated 11 October 2002 of the Ministry of Policy Development and Implementation had not been followed in this connection.
- (b) A sum of Rs.7,597,196 spent by the Authority for carrying out repairs to the Housing Schemes of the REEL Company and the Payment of Salaries of the employees of the REEL Company had been brought to account as a current asset. Nevertheless adjustments had not been made to the provision for this purpose received from the Ministry of Construction, Engineering Services, Housing and Common Amenities.

### **3. Systems and Controls**

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Deficiencies 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.

- (a) Capital Employment
- (b) Accounting
- (c) Management of Development Expenditure
- (d) Human Resources Management