

Urban Settlement Development Authority - 2015

The audit of financial statements of the Urban Settlement Development Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, 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.

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 Auditing 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 judgement, 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 Settlement Development Authority as at 31 December 2015 and its financial performance and 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 be Rs.5,000 million and it should be paid in installments from the Consolidated Fund of the Government in terms of Sub-section 16(3) of the Urban Settlement Development Authority Act, No. 36 of 2008, no capital whatsoever had been provided to the Authority even by the end of the year under review.
- (b) In terms of provisions in Sub-section 16(e) of the Urban Settlement Development Act, No. 36 of 2008, 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. 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 Policies

The Accounting Policies followed in respect of Government grants provided annually to the Authority for capital expenditure by the General Treasury had not been disclosed in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.1,179,062,714 had been spent for the construction of the Angulana Housing Project, out of the Treasury Grants, a sum of Rs.684,298, 437 had been written off on a decision of the Board of Directors. As such, non-current assets had been under- computed by that amount.

- (b) Action had not been taken for a period of 12 months to identify and account direct credit of Rs.1,199,250 relating to a Bank Current Account.
- (c) The Authority had paid a sum of Rs.5,020,516 and acquired a land of 0.0508 hectares in extent adjoining the Angulana Housing Project itself. Details in respect of those assets had been included in the cost of the project without disclosing separately under Lands in non-current assets.
- (d) Action had not been taken to value and account for 04 motor vehicles as at 31 December of the year under review transferred to the Authority by a Subsidiary of the Authority in the year under review.
- (e) A sum of Rs.3,891,911 payable to the Sri Lanka Land Reclamation and Development Corporation for the repair of an office building of the Authority had not been settled but credited to the income without the concurrence of the institution concerned.
- (f) A sum of Rs. 207,331,767 receivable to the Authority as service charges of property developers had been collected by the Urban Development Authority. Even though this amount was relevant to the preceding years, it had been brought to account as an income in the year under review without making adjustments retrospectively.

2.2.4 Lack of Evidence for Audit

Subsidiary documents in support of handing over the computers and furniture and equipment valued at Rs.1,675,608 given to 6 Swashakthi Centres, had not been furnished to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to settle advances totalling Rs.200,091 granted during the year under review.
- (b) The value of the loan instalment receivable under Phase I of the Scattered Housing Loan Programme amounted to Rs.16,851,730 and out of that, the balance between 1 and 2 years and the balance more than 2 years amounted to Rs.4,453,942 and Rs.7,000,739 respectively.
- (c) Even though the Angulana Housing Loan Instalments receivable for the year under review amounted to Rs.7,525,619 , out of that, the value of the loan instalments recovered amounted to Rs.452,800. As such, the unrecovered loan instalment had been 93 per cent of the total value of loan instalments.
- (d) Action had not been taken by the Authority to settle a sum of Rs.11,105,000 payable to the Community Based Organizations by the end of the year under review.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.

Non-compliances

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|-----------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Urban Settlement Development Authority Act, No.36 of 2008 | Section 10 | The Authority had been established to formulate a National Policy relating to urban settlement development and to ensure the implementation of that Policy. Even though 7 years had elapsed after the establishment, the Authority had failed to formulate and implement such National Policy. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | (i) Financial Regulation 371 | The Authority should appoint an Advisory Committee of not more than 14 members including the Chairman, an Advisory Committee had not been so appointed. As such, a methodology for giving advice in the approval of the functions relating to objectives of the Authority such as proposals, plans, projects and action plans etc. of the Authority, had not been prepared. |
| | (ii) Financial Regulation 756 | Even though advances granted should be settled immediately after the completion of that purpose by producing receipts, periods between 01 month and 05 months had elapsed in settling advances totalling Rs.1,098,362 granted in 84 instances.

Furniture, plastic chairs, sewing machines and computers purchased at a total of Rs.1,390,086 to be distributed among the Resource Centres by the Authority had not been included in the year end Board of Survey. |
| (c) Apartment Ownership (Amendment) Act, No.45 of 1982 | Sub-section 20 (h) | Even though Management Committees should be established for management activities of the Angulana Housing Project, a sum of Rs.11,105,000 recovered from recipients thereon had been deposited in a Savings Account of the Authority without taking action to establish the relevant Management Committees. The Authority had to incur the expenditure of Rs.1,972,786 in the year under review for the maintenance of the housing project due to failure in taking action to establish the Management Committees |

accordingly.

- (d) The Decision of the Cabinet of Ministers No. CM/07/0140/226/103 of 22 February 2007. Even though the Real Estate Exchange (Pvt.) Ltd., should be liquidated and assets and liabilities of that company should be vested in the Authority immediately after the establishment of the Authority, action had not been taken to liquidate the company even by the end of the year under review.
- (e) Government Procurement Guidelines
- (i) Guideline 3.4.3 When the suppliers have been registered for supplies, quotations should be invited from those suppliers. Nevertheless, the Authority had invited quotations from a registered supplier and 07 unregistered institutions in the purchase of furniture valued at Rs.4,851,464 in the year under review.
- (ii) Guideline 5.1.1 Even though specifications of Items should be clearly indicated in inviting quotations, action had not been so taken. As such, comparison of quotations had been inconvenient.
- Example:- Type of timber of tables, size of a computer table
- (iii) Guideline 5.4.5 In the purchase of imported equipment, an advance of 30 per cent can be paid to the supplier only for the issuance of Letters of Credit in favour of the institution. However, the Authority had paid Rs.2,420,636 as an advance of 50 per cent before receiving furniture and it had not been included in the Contracts of Purchasing as well that such an advance should be paid.

2.5 Transactions not supported by Adequate Authority

Even though Housing Loans amounting to Rs.23.6 million had been granted to the employees of the Authority in the year under review, provisions made for the implementation of Scattered Loan Project had been used in that connection without the approval of the General Treasury.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2015 had been a surplus of Rs.207,344,767 as against the deficit of Rs.10,284,599 for the preceding year thus indicating an improvement of Rs.217,629,366 in the financial result of the year under review as compared with the preceding year. Accounting of the income from service charges in the year under review amounting to Rs.207,331,767 payable to the Authority by collecting as service charges from property developers in the preceding years by the Urban Development Authority, had been the main reason for the improvement in the financial result.

An analysis of the financial results of the year under review and the four preceding years revealed a financial deficit of Rs.57,276,732 in the year 2011. Nevertheless, there had been surpluses of Rs.11,619,000 and Rs.6,032,874 in the years 2012 and 2013 respectively. There had been a financial deficit of Rs.10,284,599 again in the year 2014 and it had converted into a surplus of Rs.207,344,767 in the year under review. Taking into consideration the employees' remuneration and depreciation for non-current assets, the contribution of the Authority had taken a negative value of Rs.31,567,761 in the year 2011. Nevertheless, it had continuously improved as positive value since the year 2012 and it had reached Rs.263,421,617 in the year under review.

3.2 Analytical Financial Review

The following observations are made.

- (a) The income from service charges had increased by 100 per cent in the year under review as compared with the preceding year and represented 62 per cent as a percentage of the total income.
- (b) The current ratio and the net profit ratio had improved by 87 per cent and 875 per cent respectively as compared with the preceding year and a sum of Rs.207,331,767 which should be collected by the Urban Development Authority as service charges from the property developers and payable to the Authority taken to the income in the year under review and it had been the main reason for the above improvement.

4. Operating Review

4.1 Performance

The objectives of the Urban Settlement Development Authority Act, No.36 of 2008 are the improvement of the living conditions of persons living in underserved Urban Settlements by upgrading available housing units or by providing better housing facilities and access to minimum urban services in order to ensure a sustainable Urban Settlement Development.

The following observations are made in respect of fulfilment of the above objectives.

- (a) Even though it had been planned to spend a sum of Rs.993 million for 10 projects including 07 projects for the construction of 4,122 housing units during the year under review, the entire financial performance had been Rs.449 million or 45 per cent.
- (b) Three programmes with an estimated value of Rs.190.52 million planned to be implemented in the year under review, had not been implemented.
- (c) Even though it had been planned to execute works valued at Rs.150 million in the year under review for the construction of 96 housing units under the Programme of Settlement of Families in Trincomalee, its financial progress had been a low value of Rs.25 million or 16 per cent.
- (d) It had been planned to spend Rs.23 million for providing services for 50,000 family units under the Human Development Programme. However, spending 99 per cent of the provision made or Rs.22.76 million for providing services only for 4,190 units had become a problematic issue in audit.
- (e) A sum of Rs.12 million had been spent in the year under review for providing sewing machines for low income women entrepreneurs in the Hambanthota District under the Social Enlivening Programme which was not included in the Corporate Plan.

4.2 Management Inefficiencies

The following observations are made.

- (a) Fourteen houses of the Sinhapura Housing Scheme had been leased out for Rs.5,000 per month for a period of 05 years and in terms of agreements, if the lease rent is not paid during a continuous period of 3 months, the agreement should be cancelled. However, lease agreements of 08 houses of which the lease rent had not been paid for over months ranging from 05 months to 34 months, had not been cancelled.
- (b) Even though it had been decided to establish 26 Swashakthi Centres in terms of the Decision of the Board of Directors No. 06/2014 of 27 June 2014, centres had not been established in 12 places for which the approval of the Board of Directors had been given and 11 other centres had been established instead.

4.3 Operating Inefficiencies

The following observations are made.

- (a) A sum of Rs.76,165,000 had been released for 435 loan beneficiaries under the Diriya Housing Programme. The Loan Ledger relating to loans had not been updated and copies of cash receipts and details of identity cards of guarantors had not been included in the loan files. Further, instances where loans had been granted without certifying by the Grama Niladhari and instances where affidavits had not been completed, were observed in audit.

- (b) Action had not been taken even by the end of the year under review to vest legal ownership of Thuruithurugama and 48 Wattha Housing Projects valued at Rs.58,594,359 and Rs.34,500,000 respectively with the Authority.
- (c) Even though the Authority had paid a sum of Rs.823,534 as commission of 10 per cent to debt collectors in the year 2015, the progress of recovery of loans of Phase I of the Programmes of Angulana Housing Loans and Diriya Housing Loans, had taken a low value of 6 per cent and 48 per cent respectively.

4.4 Transactions of Contentious Nature

A sum of Rs.90 million had been received from the Ministry from the year 2013 up to the year 2015 for granting Scattered Housing Loans and out of that, a sum of Rs.46.23 million in Phase I and a sum of Rs.34.60 million in Phase II had been granted as scattered loans respectively and the balance sum of Rs.9.17 million had been utilized for other purposes.

4.5 Apparent Irregularities

A sum of Rs.508 million had been granted by the end of the year under review to the Authority for various projects from the year 2011 up to the year 2015 by the General Treasury for uplifting the living condition of low income recipients living in urban areas and the Authority had taken action to recover from the low income recipients, the value of financial and goods aid granted through various projects to those recipients without the approval of the General Treasury, on a decision of the Board of Directors. The value of instalments and loan interests so recovered from low income recipients by the end of the year under review amounted to Rs.23,287,518.

4.6 Underutilization of Funds

A sum of Rs.1,407 million had been received for projects from the General Treasury from the year 2011 up to the year 2015 and only a sum of Rs.1,341 million had been spent for those projects. As such, out of the funds received for the projects, a sum of Rs.66 million had been retained by the Authority without spending for those projects and the balance funds had not been remitted to the General Treasury even by 31 December of the year under review.

4.7 Idle and Underutilized Assets

The following observations are made.

- (a) Even though computers and accessories valued at Rs.618,115 had been provided to two Swashakthi Centres by May 2015, those computers had been lying in an underutilized position without being made use of due to failure in commencing the computer classes even by the end of the year under review. Moreover, the guarantee period of the goods as well had expired.

- (b) Even though a sum of Rs.540,911 had been spent in the year under review for repairs of a jeep owned by the Authority, it had been parked for 06 months after repairs, without being used for running.
- (c) Six machines valued at Rs.1,150,000 purchased for the manufacture of bricks in the Chilaw Housing Project had been lying idle from the preceding year up to 31 December of the year under review, without being made use of.
- (d) The house bearing Number 70/37/4/1 in the Sinhapura Housing Scheme had been closed down since the year 2012 without being made use of.

4.8 Uneconomic Transactions

A sum of Rs. 1,231,552 had been spent in the year under review for publishing newspaper advertisements relating to the opening ceremony of the “Seethawaka Housing Project” and the inauguration ceremonies of establishment of the “Jana Sevana Swashakthi” Community Resource Centres.

4.9 Procurement Activities and Contract Administration

The following observations are made.

- (a) The Authority had paid a sum of Rs.85 million in addition to the mobilization advances of 20 per cent as advances to the contractor who carries out the constructions of the Angulana Housing Complex for purchase of raw materials which did not agree with the provisions mentioned in the contract agreement.
- (b) The Authority had incurred an expenditure amounting to Rs.747,754 and Rs.2,395,289 for Housing Projects to be constructed in Trincomalee and Seethawaka areas respectively without obtaining necessary provisions from the relevant Ministry and the General Treasury. Nevertheless, it was revealed in audit that those Housing Projects had been ceased half way.
- (c) A sum of Rs.6.1 million comprising a sum of Rs.15,000 as material aid and Rs.10,000 as financial aid had been spent for constructions and completion of 466 toilets for the low income urban community. Even though only the Hambanthota District had been selected for the construction of toilets, the basis on which only that District had been selected, was not revealed in audit. According to the agreement entered into between the Authority and beneficiaries, the toilets should be constructed and completed within a month and if not, the beneficiary should pay the amount granted and the value of building materials considering as a loan to the Authority as a lump sum payment. However, the Authority was not equipped with methodologies to identify that the toilets had been actually completed or the toilets had not been constructed. Even though only financial aid had been granted to 08 beneficiaries, the Authority had not taken action to recover that amount as toilets had not been constructed in accordance with the agreements.

4.10 Resources of the Authority given to other Government Institutions

The Authority had paid a sum of Rs.306,830 as salaries and allowances of two officers released to the Line Ministry in the year under review.

4.11 Staff Administration

The following observations are made.

- (a) The approved cadre of the Authority as at 31 December of the year under review had been 111 while the actual cadre stood at 119, thus 15 vacancies and 21 recruitments exceeding the approved cadre, existed in the staff.
- (b) Even though 02 Engineering posts of the Authority had been approved, those posts existed as vacancies from the year 2011 even up to the end of the year under review. As such, a situation had arisen in which the Authority that is engaged in constructions, had been unable to carry out those activities continuously.
- (c) The post of Director (Planning) which is a post of top level in the Authority had been vacant by the end of the year under review and action had not been taken to recruit an officer for that post even by June 2016.

5. Accountability and Good Governance

5.1 Corporate Plan

The Corporate Plan had not been prepared in accordance with Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 by including details such as resources available at present in the Authority, the progress of operations in three preceding years and identification of officers responsible for each function in the Corporate Plan.

5.2 Action Plan

Functions which should be performed out of those included in the Action Plan for the year under review, officers responsible for each function and indicators for evaluation of performance had not been included in the Action Plan.

5.3 Internal Audit

The following observations are made.

- (a) According to the organizational structure of the Authority, the post of Internal Auditor being a post of Middle Grade had directly affected the performance and independence of audit.
- (b) Only the post of Internal Auditor had been approved in the approved cadre for the Internal Audit Unit and the assistance of two officers in the Management Assistant Service of the Authority had been obtained for the activities of the Unit. Nevertheless, the

internal audit programmes on the community partnership constructions and the direct constructions included in the approved internal audit programme for the year under review had not been adequately executed.

- (c) Programmes relating to the evaluation of the performance of the Authority had not been included in the internal audit programme.

5.4 Budgetary Control

The estimated income and certain items of expenditure for the year 2015 had not been budgeted and variances ranging from 20 per cent to 200 per cent were observed between the budgeted and actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.5 Tabling of Annual Reports

Even though the Authority should table its Annual Report in Parliament within 150 days after the closure of the accounting year in terms of Section 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Authority had not tabled Annual Reports in Parliament since the year 2013.

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.

Areas of Systems and Controls	Observations
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(a) Accounting	(i) Failure in identifying prior year adjustments accurately and accounting. (ii) Cost of assets had not been brought to account accurately and as such, the value thereof had been under- computed.
(b) Financial Management	(i) Action had not been taken to settle advances immediately after the completion of the relevant purpose. (ii) The Government grants received for various programmes had been used for purposes contrary to that objective and the unspent balance of the Government grants had not been remitted to the Treasury.

- (c) Staff Administration
The posts of top level of the Authority had been vacant and recruitments had been made exceeding the approved cadre. Further, certain posts had not been graded accurately.

- (d) Contract Administration
Certain projects planned to be implemented in the year under review had not been implemented and a low performance was observed in the projects implemented. Moreover, certain procurements had been made contrary to the Government Procurement Guidelines.

- (e) Debt Control
Action had not been taken to recover loan instalments in terms of loan agreements and the progress of the recovery of debts had taken a low value.