

Urban Settlement Development Authority – 2017

The audit of financial statements of the Urban Settlement Development Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statements of Financial Performance statement of changes in net assets and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significant of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

The following observations are made.

- (a) In terms of paragraph 69 of the Sri Lanka Public Sector Accounting Standard 7 depreciation of an assets begins when it is available for use. On the contrary, it was stated under accounting policies that depreciation was made for the entire year, irrespective of the date of purchase.
- (b) The accounting policy followed in respect of accounting government grants received annually by the Authority for capital expenditure from the General Treasury had not been disclosed in the financial statements.
- (c) Even though it was stated under accounting policies that the Authority would depreciate property, plant and equipment on straight line method, the assets costing Rs.52,345,094 existed as at the end of the year under review had been depreciated on written down value (WDV), resulting an understatement of deprecation by Rs.10,354,455 in the year under review.
- (d) Even though it was stated that the non-current assets were revalued once in 5 years, under accounting policies any assets whatsoever, exceeding 5 years as at the end of the year under review had not been revalued.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Lands, 2.43 hectares in extent acquired by the Authority for the Angulana and Chillaw housing project by paying a sum of Rs.9,653,072 had been disclosed in the statement financial position under works in progress instead of being shown under lands.
- (b) One hundred and twenty four houses valued at Rs.206,299,127 belonging to 4 housing schemes, which had been expected to be disposed of by the Authority on sales basis had been shown as housing projects under non-current assets instead of being shown as stock under the current assets.
- (c) Instead of being accounted the grants of Rs.58,594,358 received from the Line Ministry to the Authority for the construction of Anuradhapura Thuruithurugama housing project in the previous year under grants, it had been accounted under revenue reserves.
- (d) As the loan amount of Rs.383,625 given for education purposes of the officers on recovery basis had been brought to account as expenses, the recovery of loan installments amounting to Rs.164,061 in the year under review had been deducted from

the training expenses. As a result, the training expenses of the year under review had been understated by Rs.164,061 and the loan balance of Rs.159,403 receivable as at the end of the year under review had also not been shown in the financial statements.

- (e) Even though a Jeep belonged to the Ministry of Housing and Construction had been acquired by the Authority on 21 December 2016, it had not been assessed and brought to accounts under the fixed assets.
- (f) Even though 99 houses in the Anuradhapura 'Thuruithurugama Haritha Janawasa Project' had been given to the dwellers in the year 2013 the instalment revenue receivable from 32 dwellers in 32 houses had not been recognized and brought to accounts by the end of the year under review.
- (g) Although a loan balance of Rs.36,731,157 irrecovered for periods 1 to 3 years by the end of the year under review, a sufficient provision for doubtful debts had not been made after being reviewed the loans.
- (h) Even though loans of Rs.2.67 million from 3 housing scheme received from the Urban Development Authority in the year under review had been recovered and brought to accounts, action had not been taken to identify the value of such assets and to bring it into accounts.

2.2.3 Lack of Evidence for audit

A sum of Rs.207,331,767 had been shown under current assets as receivable from the Urban Development Authority as at 31 December 2017 but it could not be verified or accepted in audit as non-availability of confirmation of balances to audit. According to the audited financial statements for the year 2016 of the Urban Development Authority, such a balance was not shown as payable.

2.2.4 Unexplained Differences

According to the financial statements as at the end of the year under review, the receivable distress loan balance amounted to Rs.12,835,371 whereas according to the schedule, such value amounted to Rs.12,879,234 and as such an unexplained difference of Rs.43,863 was observed.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The value of instalments receivable under the stage one of Visiri Housing loan programme amounted to Rs.23,986,390 and it included balances of Rs.14,711,505 and Rs.9,274,885 remained receivable from 1 to 2 years and over 2 years respectively.

- (b) The rent income from Angulana Housing Scheme receivable relating to the year under review amounted to Rs.10,909,488 but the rent income recovered had been only Rs.407,100 during the year under review and as such 96 per cent of the total rent income was due.
- (c) Even though a sum of Rs.672,939 was receivable in the year under review from 25 houses given on sales basis in the Thuruithurugama Housing Project, only a sum of Rs.125,225 had been recovered and the value of unrecovered amount represented 81 per cent. Similarly, a sum of Rs.1,135,512 was receivable from 72 houses given on rehabilitation basis but only a sum of Rs.167,640 had been recovered and the unrecovered loan balance represented 86 per cent.
- (d) The payment of office rent payable to the Urban Development Authority had been suspended on a decision of the Management of the Authority without the consent of the Urban Development Authority and the rent payable as at the end of the year under review amounted to Rs.21,129,684.
- (e) Action had not been taken to settle a sum of Rs.11,823,000 payable to the Community Based Organizations by the Authority by the end of the year under review.
- (f) The outstanding distress loan balance unrecovered as at the end of the year under review amounted to Rs.385,739 and a sum of Rs.250,379 thereof had remained outstanding for periods from 01 to 05 years.
- (g) The outstanding rent income of the Sinhapura Hosing Project as at the end of the year under review amounted to Rs.1,557,000 and the balance outstanding for periods 2 to 5 years amounted to Rs.707,000 thereof, representing 45 per cent of the total rent income.
- (h) The retention money as at the end of the year under review totaled Rs.1,299,416 and the balances remained outstanding for periods 1 to 5 years and more than 5 years amounted to Rs.1,106,284 and Rs.110,561 respectively. Action had not been taken to settle them.

2.4 Non-compliances with laws, rules, regulations and management decisions

The following non-compliances with laws, rules and regulations were observed.

Reference to Laws, Rules, Regulations, etc.

Non-compliances

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| (a) Urban Settlement Development Act, No.36 of 2008 | (i) The Authority had been established in order to prepare a national policy on Urban Settlement Development and to ensure the implementation of that policy. Nevertheless, the Authority had failed to prepare a national policy and to implement it though 9 years had elapsed since the establishment of the Authority. |
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(ii) In terms of section 10 of the Act, an advisory committee not more than 14 members, including a chairman had been appointed by April 2017. However, that committee had not identified the functions relating to the objectives of the Authority such as proposals of the Authority, plans, projects, Action plans etc. even by the end of the year under review.

(iii) In terms of sub-section 16(3) of the Act, the initial capital of the Authority amounted to Rs.5,000 million and it should have been received from the Consolidated Fund of the Government by instalments. Nevertheless, any capital whatsoever had not been given from the Consolidated Fund even by the end of the year 2017.

(b) Sub-section 20 (h) of the Apartment ownership (Amendment) Act, No 45 of 1982

Even though the management committees should be set up, for the management of the housing project, concurrent with the vesting of Angulana Housing Project in the people's ownership, action had not been taken to set up such committees, even up to this report. A sum of Rs.12,621,560 had been collected from house recipients in respect of the establishment of these committees as at the end of the year under review and it had been deposited in a savings bank account of the Authority. As action had not been taken to set up those committees, a sum of Rs.2,203,520 had to be spent from the fund of the Authority in the year under review for the maintenance of the housing project.

(c) Public Finance Circular No.03/2015 of 14 July 2015

(i) An officer obtains an ad-hoc imprest should settle it immediately after the completion of the purpose for which it is taken. However, sub-imprest totalling Rs.385,000 given to 2 officers in 4 instances during the period January to July of the year under review had not been settled even up to the date of this report. It had taken to settle sub-imprest totalling Rs.641,180 given to 15 officers in 23 instances for periods ranging from 27 to 103 days.

(ii) Ad-hoc sub imprests can be granted only to staff grade officers up to a maximum amount of Rs.100,000 and if this Limit is required to be exceeded, the prior approval of the Treasury should be obtained therefor. On the contrary, advances totalling Rs.350,000 had been granted to non-staff grade officer in 2 instances during the year under review.

- (d) Public Enterprises Circular No.03/2017 of 11 December 2017 Incentives totalling Rs.1,507,500 at Rs.15,000 per employee had been paid for the year under review only on the approval of the Board of Directors without the consent of the Treasury in terms of the Circular instructions.
- (e) Paragraph 3.2 of the Public Enterprises Circular No.PED/1/2015 dated 25 May 2015 When the monthly fuel allowance is insufficient to perform the duties, under special circumstances, the actual expenditure incurred can be re-imbursed after being obtained proper approval. Before being obtained such an approval, the additional fuel had been used and then referred for approval at the end of that month.
- (f) Paragraph 10 of the Public Finance Circular No 02/2015 of 10 July 2015 A sum of Rs.3,985,025 received from the disposal of goods by the Authority during the year under review had not been credited to the Consolidated Fund in accordance with the Circular instructions. In addition, after the disposal process, the detailed report to be submitted to the relevant divisions of the Treasury with a copy to the Auditor General had not been sent.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2017 had resulted in a deficit of Rs.19,844,291 as compared with the deficit of Rs.46,536,014 for the preceding year, thus the deficit of the year had decreased by Rs.26,691,723 as compared with the preceding year. The increase of government grants for recurrent expenditure by Rs.20,464,450 had mainly attributed to decrease, the above deficit.

In the analysis of financial results of the year under review and the previous 4 years a surplus of Rs.6,032,874 in the year 2013 and a deficit of Rs.10,284,600 in the year 2014 had existed. The surplus of the year 2015 amounted to Rs.207,344,767. However deficit in the year 2016 and 2017 had existed and it had decreased from Rs.46,536,014 to Rs.19,844,291. In readjusting the employees remunerations, taxes paid to Government and depreciation on non-current assets to the financial results, the contribution of Rs.53,501,687 of the Authority in the year 2013 had indicated a positive value up to the year under review but it had fluctuated annually and become Rs.53,058,777 in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

- (a) The corporate plan, containing such information as available resources at present in the entity, a review of financial results of the past 3 years, officers responsible for each function etc. had not been prepared in terms of paragraph 5.1.2 of the Public Enterprises circular No.PED/12 of 02 June 2003.
- (b) The following functions to be performed to achieve the objectives of the Authority in terms of Urban Settlement Development Authority Act No.36 of 2008 had not been included in the corporate plan.
 - (i) Acquisition of lands belonged to the Government and Local Authorities for the affairs of the Authority.
 - (ii) Implementation of proposals, plans and projects relating to the upliftment of Urban Settlement Living Standards.
 - (iii) Conducting surveys and education programmes to identify the economic and social status of Urban dwellers.
 - (iv) Implementation of urban housing loan schemes pertaining at national level.
- (c) The action plan relating to the year under review did not contain activities to be achieved, out of activities included therein, officers who had been assigned responsibilities for each activity and indicators to evaluate the performance and only the activities to be performed on Treasury grants had been included in the action plan.

4.1.2 Operations and Review

The main objectives of the Urban Settlement Development Authority, in terms of Act No.36 of 2008 include, the upliftment of living conditions of persons living in Urban Settlements with lesser service facilities by improving existing house units or providing suitable area for better housing facilities and minimum urban facilities in order to ensure sustainable urban settlements.

The following observations are made in respect of the achievement of objectives and functions of the Authority.

- (a) The Lunawa Housing Project had been planned to complete in the year under review by spending a sum of Rs.90 million and only a sum of Rs.60 million had been spent by the end of the year under review and the works of the project had not been fully completed.
- (b) Even though it was planned to complete 75 per cent of the works of the Horana Housing Project in the year under review by spending a sum of Rs.34 million, only a sum of Rs.6.29 million had been spent and the physical progress reached only 12 per cent. Furthermore, the balance work of this project had been taken over by the Line Ministry due to financial discrepancies of about Rs.668,200 occurred in the project activities but action had not been taken to identify the officers responsible for discrepancies and to take necessary action even up to June 2018.
- (c) Even though it was planned to complete 95 per cent of the work during the year under review by incurring an expenditure of Rs.63.20 million from the housing development programme for 137 families under the Galle, Rajagama Urban Housing Project, the physical progress reached was 83 per cent and the expenditure incurred thereon during the year under review amounted to Rs.52.65 million.
- (d) The contractual period of the contract valued at Rs.17.21 million for the construction of the shopping complex and the garbage disposal location of the Angulana Sayurupura Housing Project was terminated by 27 September 2016, but action had not been taken to complete the project work or to extend the period of contract, even up to June 2018. Likewise, the construction of a garbage disposal location project valued at Rs.2.82 million included in the original bill of quantity had been omitted at time of being revised the bill of quantity again and it is questionable in audit. Furthermore, the bill of quantity had been revised and the value of contract had been increased up to Rs.18.77 million but action had not been taken to enter into a new agreement with the contractor by the Authority.

4.2 Management Activities

The following observations are made.

- (a) Even though action had been taken to acquire lands, 12.32 hectares in extent from various institutions relating to 863 units of houses located in 5 housing schemes under construction or completed by the Authority since the year 2011, the Authority had failed to acquire those lands even by the end of the year under review. As a result, it was further observed in audit that there were delays in giving title deeds to dwellers.
- (b) The Authority had constructed 380 units of houses by incurring an expenditure of Rs.1,172 million from the Treasury grants for the Lunawa Housing Scheme by the end of the year under review. According to the section 3 of the cabinet memorandum presented on 22 March 2012 by the Minister in charge of the subject, action had not been taken to identify 356 Urban Settlement families with lesser facilities resided within the Moratuwa Municipal Council Limit to inhabit in those houses.

- (c) A sum of Rs.17.50 million had been spent during the year under review for making and completing toilets for low income urban community at Rs.17,189 as material assistance and Rs.10,000 as financial assistance per toilet during the year under review. Only 814 families in Hambantota District had been selected for making toilets but the selection criteria of this District was not revealed in audit. Further, according to the agreement between the Authority and the beneficiaries the toilets should be completed within a month. However, any action whatsoever, had not been taken by the Authority in respect of 380 families who had not completed the works of toilets.
- (d) Action had not been taken to recover the loan balance of Rs.1,059,513 due from 3 officers who left the service of the Authority in the year under review.
- (e) Action had not been taken to identify and account 2 liabilities amounting to Rs.116,500 shown in a bank reconciliation statement since the year 2015.
- (f) A loan of Rs.256,000 had been granted to an officer in the year under review for education purposes by the Authority without entering in to an agreement.
- (g) In terms of decision No.14/1293/517/031 dated 30 September 2014 of the Cabinet of Ministers, it was informed that the Real Estate Exchange (Private) Ltd should be Liquidated within 2 months and the assets and Liabilities of that company should be vested in the Authority. Nevertheless, only 5 motor vehicles valued at Rs.7,929,972 had been shown in the financial statements of the Authority by the end of the year under review and action had not been taken to vest the remaining assets and Liabilities amounting to Rs.12,499,801 and Rs.16,038,231 respectively and the bank balance of Rs.3,880,025 even by the end of the year under review. Moreover, out of a sum of Rs.19,024,421 given by the Urban Development Authority on 12 October 2015 to be paid to 26 external parties of the Company, cheques valued at Rs.7,139,255 issued by the Authority in October 2015 to be paid to 24 external parties had not been given to the relevant parties since the period over 2 years up to the end of the year under review.
- (h) According to the Board Decision No.03/2015/01 dated 12 June 2015, it was decided to recover a sum of Rs.915,148 per each house from the dwellers of Chillow Housing Project. However as the constructions of those houses had been below the standard, the amount recoverable from a house had been reduced to Rs.700,000 according to the decision No.11/2017/24 dated 18 December 2017 taken by the Board of Directors. Accordingly the loss sustained by the Authority amounted to Rs.12,263,436. Further, 57 houses of this housing project had not been assessed by the Department of valuation before being given to the house recipients.
- (i) Out of a sum of Rs.1,179,062,714 spent for the Angulana Housing Project constructed on Treasury provisions a sum of Rs.700,074,056 had been written off against the profit on a decision of the Board of Directors without following any appropriate methodology.

4.3 Operating Activities

The following observations are made.

- (a) Even though a sum of Rs.1,051,711 had been paid to debt collectors as 10 per cent commission in the year under review to encourage debt collection under the ‘Visiri, loan scheme, the debt collection progress in the Angulana Housing loan programme and Diriya Housing Loan Stage I programme had been as low value as 4 to 45 per cent respectively.
- (b) Sales agreements had not been entered into with dwellers to whom houses had been given under Anuradhapura “Thuruithurugama” and Chillaw Housing Projects with 59 house recipients in the previous year by the Authority even by the end of the year under review.

4.4 Transactions of contentions nature

The following observations are made.

- (a) Eight units of houses valued at Rs.25.60 million belonging to the Angulana Housing Scheme had been disposed of free of charges by a free award paper during the year under review by the Authority and the Treasury approval therefor had not been obtained.
- (b) The loans given to dwellers in respect of Hambantota Housing Project by the end of the year under review amounted to Rs.3,656,154 and it was decided by the Board of Directors not to recover the interest on those loans without the approval of the Line Ministry or the Treasury. Moreover, a sum of Rs.1,965,468 had been paid as interest in respect of this project from the Authority’s Fund.
- (c) The Treasury had granted a sum of Rs.775.06 million to the Authority from the year 2011 to the year under review for 3 housing projects and to grant Visiri Housing loans for the upliftment of living conditions of the low income people living in urban areas and the value of loan instalments expected to be recovered from beneficiaries by the end of the year under review amounted to Rs.410.40 million. Of this, a sum of Rs.8.53 million had been recovered but such money had been spent for recurrent expenditure of the Authority without being credited to a fund account of the Authority in terms of section 16 of the Urban Settlement Development Authority Act No.36 of 2008.
- (d) Of the sum of Rs.20 million received for Human Development Programmes during the year under review. Rs.5.17 million had been spent for the World Habitat Day Programme, not included in the above programme.

4.5 Idle and under-utilized assets

The following observations are made.

- (a) As a result of closing 48 houses in 3 housing schemes situated in Sinhapura, Anuradhapura and Angulana areas belonging to the Authority for periods from 01 to 03 years, the rent income to be collected had to be deprived of by the Authority.
- (b) Action had not been taken to distribute 8 Juki sewing machines and 110 normal sewing machines purchased in the years 2014 and 2016 by incurring an expenditure of Rs.2,662,065 under the social mobilization programme among the beneficiaries even by the end of the year under review.

4.6 Resources of the Authority given to other government entities

Four officers had been released to the National Housing Authority and the State Engineering Corporation during the year under review by the Authority and a sum of Rs.1,888,797 had been paid therefor as salaries in the year under review and a sum of Rs.1,615,208 had to be reimbursed as at 31 December of the year under review.

4.7 Personal Administration

The following observations are made.

- (a) Even though 2 engineer's posts of the Authority had been approved, they had fallen vacant since the year 2011 up to the end of the under review and it had badly affected the execution of construction works of the Authority.
- (b) According to the Public Administration Circular No.25/2014 dated 12 November 2014, 21 officers had been recruited to the Authority but action had not been taken to include those posts to the approved cadre.
- (c) Without the approval of the Secretary to the Line Ministry, 21 trainees (trained) had been recruited in the year under review for supervisory functions of the houses in Hambantota District and allowances totalling Rs.2,792,250 had been paid to them during the year under review.

5. Sustainable Development

5.1 Reaching sustainable Development Goals

Every government entity should take action in accordance with the letter No.NP/SP/SDG/17 of 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the "2030 agenda" of the United Nations on Sustainable Development. Nevertheless, as the Authority was not aware about how to act in respect of the functions coming under the scope of the Authority relating to the year under review, Sustainable

Development Goals, targets and the manner how to reach those targets and the indicators to measure the targets had not been identified.

6. Accountability and Good Governance

6.1 Procurements and Contract Process

6.1.1 Procurements

The following observations are made.

- (a) Before the commencement of a construction procurement, the procurement agency should ensure that the acquisition of land is completed, all other matters required to execute the project without any obstructions are fulfilled in terms of Guideline 2.3.1(b) of the Government Procurement Guidelines 2006. Nevertheless, action had not been taken to get the ownership of lands belonging to the Lunawa housing project constructed by incurring an expenditure of Rs.1,233,367,544 and the Thalawakele – Lindula housing project constructed by incurring an expenditure of Rs.63,070,626 by the end of the year under review.
- (b) In terms of Guideline 5.4.6 of the Government Procurement Guidelines 2006 and the supplement No.29 of 25 January 2016, in making payments to contractor for construction works, retention money should be deducted to cover or rectify the defects from payments. However, action had not been taken to make the interim payments of Rs.42,298,416 to the contractor of the Lunawa Housing Project during the year under review after being deducted the retention money.
- (c) According to the guideline 5.4.6 of the Government Procurement Guidelines and the supplement No.29 of 25 January 2016, of the retention money deducted from contract payments 50 per cent after being completed the work and handed over and the balance 50 per cent after the warranty period is over can be released. On the contrary, the total retention money amounting to Rs.55,076,250 relating to the Lunawa housing project which had not been handed over to the Authority after the competition of work and an additional sum of Rs.6,507,164 had been released to the contractor in 5 occasions.
- (d) In terms of guideline 2.8.1(a) of the Government Procurement Guideline, any member should not serve in both procurement committee and the Technical Evaluation Committee. However, same members had represented bid opening, Technical Evaluation Committee and the procurement committee in respect of 2 procurements relating to the purchase of furniture and office equipment valued at Rs.688,113.
- (e) A detailed procurement plan had not been prepared for the year under review by the Authority for the year under review by the Authority in terms of guideline 4.2.1(a) of the government procurement guidelines.
- (f) In terms of guideline 5.3.18(b) of the government procurement guidelines, the value added tax (VAT) should not be taken into consideration in evaluating bids. Nevertheless, when all procurements were evaluated by the Authority, bids submitted by VAT registered bidders were evaluated at prices with VAT and the bids submitted by bidders who had not registered for VAT were revaluated at prices without VAT.

Under this circumstance, the Authority had acted in a manner favourable to the bidders who had not registered for VAT in procurement functions.

- (g) According to the guideline 6.3.3(b) of the government procurement guidelines bids should be opened immediately after the close of the bids and bids should be opened before bidders or their representatives. However, between 3 days to 110 days had been taken to open the bids since the closing date of the acceptance of bids in 7 procurements valued at Rs.1,627,640 made in the year under review and bids were not opened before bidders. Furthermore, bid opening had not been recovered in a specimen form.
- (h) The Authority had published a procurement notice on 23 March 2017 for obtaining 2 vans with 8 seats and one van with 16 seats for a period of 5 years on lease basis and the following matters were observed in this regard.
 - (i) In terms of guideline 3.2.2 (c) of the government procurement guidelines – 2006, the supplies are permitted to purchase bid calling documents up to the date before the last date of calling for bids. However, according to the above procurement notice, the last date of calling for bids was 25 April 2017 but bid calling documents had been issued only up to 21 April 2017 and as such it was impugned in audit.
 - (ii) A record relating to the issue of bid calling documents had not been maintained, in terms of guideline 6.1.4 of the guidelines. As such it could not be established in audit that how many bidders had obtained bid documents.
 - (iii) According to the procurement notice and the bid documents, the requirement of obtaining vans on lease basis for the Authority was two 8 seated vans and one 16 seated vans. However, obtaining three 16 seated van under this procurement was not explained to audit. Hereby, the lease rent to be over paid monthly by the Authority amounted to Rs.70,000.

6.1.2 Deficiencies in contract administration

(a) Thalawakele-Lindula Housing Project

Treasury provision of Rs.84.5 million had been approved for the construction of 100 units of houses under this project and it was planned to commence the project in the year 2013 and complete in the year 2014. The following observations are made in this connection.

- (i) Even though a sum of Rs.76 million had been received as Treasury Provisions for the project by the end of the year under review only a sum of Rs.63.07 million or 83 per cent of the provision had been utilized and the construction works of only 54 units of houses out of 100 units had been completed. Similarly, the field audit inspection further revealed that as a result of being closed down the completed houses about 3 years without handing over to the beneficiaries, those houses were extensively damaged and the Authority had to incur expenditure again for the reconstruction. Furthermore, the ownership of the land

belonged to the housing project had not been vested even up to the date of this report.

- (ii) It was planned to give 60 units of houses by the project on renovation basis but only 54 units of houses had been built and as such, houses had not been constructed for 6 beneficiaries. It was further revealed that houses within the project had been allocated to 16 external persons, irrelevant to renovation and contrary to the objectives of the project.
- (iii) Even though the period of the performance bond presented by the contractor of the infrastructure development contract of the housing project had expired on 16 January 2017, the contract period had not been extended and the construction works had not been completed even by June 2018.

(b) Chillow Housing Project

Even though a sum of Rs.2.86 million had been given to the Authority in the year 2015 by the Treasury for making drainage system of the Chillow Housing Project, it had not been fulfilled even by the end of the year under review. However, quotations had been called for the construction by a newspaper advertisement on 19 April 2017, according to the 5.2.1 of the Procurement Guidelines. As information such as the qualification to be fulfilled for the contract by bidders, criterion, bid bond and its value, bid validity period, contract period etc. had not been included in the bid documents, quotations received had been rejected and the Authority had decided to call for fresh quotations. However, the Authority had failed to call for fresh quotations even up to 01 June 2018.

6.1.3 Delayed Projects

Action had not been taken to commence the construction work of Kandy Mahayyawa Urban Housing Project which had been planned to commence constructions in the previous year, the project value of which amounted to Rs.13.43 billion even by the end of the year under review. The Authority was unable to select a qualified investor for this project had caused to this position and the expenditure incurred by the end of the year under review on this project amounted to Rs.997,801.

6.2 Internal Audit

Only the post of Internal Auditor had been approved in the approved cadre and action had not been taken to strengthen the Internal Audit Division even in the year under review though it had been pointed out in the previous audit reports as well. Moreover, of the audit programmes included in the audit programme approval for the year under review field inspection programmes, relating to certain projects and the Swashakthi” Human Development Programmes had not been carried out and the programmes relevant to the performance evaluation of the Authority had not been included in the audit programme.

6.3 Budgetary Control

The following observations are made.

- (a) Estimates in respect of certain income and expenditure items of the year under review had not been prepared. In comparing the budgeted expenditure with the actuals, significant variances ranging from 37 per cent to 568 per cent had been observed and as such the Budget had not been made use of as an effective instrument of management control.
- (b) Even though a sum of Rs.684,526 had been spent for the publicity of Galle Rajagama and Horana Hegallawatta housing project in the year under review, provision had not been made there for in the annual estimates.

6.4 Tabling annual reports

In terms of paragraph 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003 the annual report of the Authority should be tabled in Parliament within 150 days after the close of the year of accounts. Nevertheless, Annual reports for the years 2014 to 2016 had not been tabled in Parliament even by 31 May 2018.

6.5 Unresolved audit paragraphs

A sum of Rs.3,891,911 payable to the Sri Lanka Land Reclamation and Development Corporation in respect of the repair of the office building of the Authority had been credited to the revenue of the Authority without being settled.

7. Systems and Controls

Weakness in systems and controls observed in audit were brought to the attention of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of systems and controls.

Areas of Systems and Controls	Observations
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(a) Accounting	<ul style="list-style-type: none"> (i) Assets and liabilities not correctly classified. (ii) Cost and depreciation of fixed assets not correctly identified and accounted.
(b) Financial Management	<ul style="list-style-type: none"> (i) Action not taken to settle advances immediately after the completion of the purpose. (ii) Utilisation of government grants received for various programs for purposes extraneous to the specific objectives and the unutilized balance from government grants not remitted back to the Treasury. (iii) Action not taken to recover loan instalments as per agreements and the loan recovery progress at a low

level.

- (c) Personal Administration Action not taken to recruit for the posts of the Corporation fallen vacant, recruitments made in excess of the approval cadre and certain posts not correctly graded.

- (d) Procurements (i) Instead of maintaining files for each procurement separately, all procurements relating to one class of asset maintained in one file and as a result, it was unable to identify each procurement separately.

 (ii) Publishing news paper advertisements without intervention of the procurement Division.

- (e) Maintenance of Motor vehicles registers (i) Monthly summaries of travels not included in the vehicles log books.

 (ii) Non-preparation of a transport service record indicating the quantity of fuel used for government vehicles monthly, number of Km run, repairs carried out during the month etc.