

## **Urban Settlement Development Authority - 2023**

---

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Urban Settlement Development Authority for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in net assets 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 Finance 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 Authority as at 31 December 2023, 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 (SLAuSs). 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**

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 scepticism 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 Audit Observations on the preparation of 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) <b>Sri Lanka Public Sector Accounting Standards No. 01</b>		
(i) According to the guidelines for implementation of the standard, the surplus should be shown under the statement of change in net assets/equity adjusted for the period as per the presentation of the financial statement, but the authority had shown the capital and recurrent surplus of previous years and the surplus of the year under review separately under net assets in the statement of financial position.	In accordance with paragraphs No. 106, 107 of Sri Lanka Public Sector Accounting Standard No. 11, the surplus/deficit of the authority is presented separately in the financial statements for a more comprehensive presentation.	Sri Lanka Public Sector Accounting Standards should be followed.

- (ii) According to section 42 of the standard, the consistency of presentation to be followed in the preparation of financial statements, but it had not been followed when presenting the investment for a period of 03 months, gratuity expense of the employee and doubtful debts in the financial statements. According to section 42 of the standard, accounting records will be maintained from the year 2023 for maintaining the consistency of presentation. Sri Lanka Public Sector Accounting Standards should be followed.
- (b) **Sri Lanka Public Sector Accounting Standards No. 03**  
The errors in the accounting of Treasury Grants of Rs. 784.61 million which were received to the authority in various ways, had not been corrected as per the paragraph No.27 of the standard. Retrospective application is made in the following year. Sri Lanka Public Sector Accounting Standards should be followed.
- (c) **Sri Lanka Public Sector Accounting Standards No. 07**  
(i) Eventhough the value of the 6 houses in Anuradhapura Thuruithurugama and value of the land had been identified as Rs. 4.90 Million and Rs. 1.03 million respectively, according to the valuation report submitted by the Government Valuation Department on 18 May 2022, the value of the 06 houses were Rs. 6.12 million and the value of the land was Rs. 1.43 million. But due to the discrepancy in the financial statements, the non current assets and revaluation reserve accounts shown in the financial statements had been understated by Rs. 1.62 million. Actions will be taken to include it in the financial statements in the year 2024, based on an updated valuation report. Sri Lanka Public Sector Accounting Standards should be followed.
- (d) **Sri Lanka Public Sector Accounting Standards No. 10**  
According to section 28 of the standard, the houses of the Lunawa housing project had been disposed under different methods and the revenue had been identified at each stages. Therefore, the authority had not followed a specific accounting policy to identify the point of sale when disposing of these houses. As per Section 31 of the Standard no 10 of the SLPSAS, the Authority has retained the legal right as a safety measure to collect the money, the sale of houses in the Lunawa housing project is recognized as revenue after the possession of the houses handovered. Public Sector Accounting Standards should be followed.

(e) **Sri Lanka Public Sector Accounting Standards No. 11**

- |       |  |  |  |
|-------|--|--|--|
| (i)   | Contrary to the paragraph No.10, IG 30 and IG 31 of the standard, the fair value of the Nittambuwa Orchardwatta land had been assessed as Rs. 120 million, but Rs. 60 million which was the cost of the land had been shown in the financial statements. The Authority had not assessed the value of the transferred land it had not shown or disclosed the financial statements.  | The Valuation report was received on 15 March 2024. An action will be taken to account for the year 2024 according to the standards based on that report.  | Public Sector Accounting Standards should be followed.           |
| (ii)  | As per the instructions given on paragraph No.14, 15, 16, 76, and IG 18, 19, 20 and 21 of the standard, without identifying the revenue from non exchange transactions, during the year under review an amount of Rs. 702.14 million had been shown under equities and reserves in the financial statements.   | The grants will be recognized as Revenue in the future after the liabilities are settled.  | Sri Lanka Public Sector Accounting Standards should be followed. |
| (iii) | According to the paragraph No. 42 of the standard, the Land in Moratuwa Lunawa owned by government had been transferred as a free grant to the Authority in 2022 but the fair value of this land had not been calculated or adjusted in the financial statements at the end of the year under review.  | The sale value of the Lunawa Housing Project was conducted based on the government valuation report. However, there is a question regarding the need for accounting since the value of the land was included in only the value of the houses disposed. | Sri Lanka Public Sector Accounting Standards should be followed. |
| (iv)  | The authority received Rs. 3 million from the General Treasury for the purchase of fixed assets during the year under review, and the fixed assets worth Rs. 0.73 million had been acquired during the year. But the authority had recognized the total value as revenue contrary to the Standard. As a result the surplus for the year under review was overstated by Rs. 2.28 million and current liabilities were understated by that amount. | According to the circular issued by the General Treasury regarding expense control, only Rs. 0.76 million was utilized for the purchase of essential goods.  | Sri Lanka Public Sector Accounting Standards should be followed. |

- (v) Although the Cabinet had decided that the revenue from the sale of houses related to the Lunawa Housing Project should be used to reimburse the allocation obtained from the Treasury for this project. But only Rs. 100 million out of Rs. 1,267 million received from the Treasury was repaid. The remaining Rs. 1,167 million had been recorded under equity and reserves instead of being accounted for as a current liability. As a result, equity and reserves were overstated by that amount and liabilities were understated by the same amount.
- The Lunawa housing sales revenue should be sent back to the General Treasury, as per the Treasury Circular No. AMPA/20/1844/306/055 dated 02 December 2020, has been accounted for under Treasury grants until further action is decided after discussions with the Honorable Minister in charge.
- Sri Lanka Public Sector Accounting Standards should be followed.
- (vi) According to Sections 106 and 107 of the Standard and the alternative treatment issued by the Sri Lanka Institute of Chartered Accountants for Sri Lanka Public Sector Accounting Standard No. 11, the value of revenue from exchange and non exchange transactions during the period should be separately disclosed in the financial statements or notes by main classes. However, the authority had not adhered to this requirement.
- Recurrent revenue and capital revenue have been separately presented in the financial statements.
- Sri Lanka Public Sector Accounting Standards should be followed.
- (f) **Sri Lanka Public Sector Accounting Standards No. 12**
- (i) According to the paragraph No. 14 (a) of the standard, 05 housing projects which were disposed on sale basis for middle and low income beneficiaries, 05 housing projects disposed on rehabilitation basis and 24 houses related to Lunawa housing project which were disposed on commercial basis should be recognized as finance lease, but such actions had not been executed, and a relevant accounting policy had not been recognized.
- Although accounts were prepared according to Standard 7, actions will be taken to maintain accounts in accordance with paragraph 14(a) for the year 2024.
- Sri Lanka Public Sector Accounting Standards should be followed.
- (ii) Contary to this standard, Rs. 3.47 million Valued 11 houses in Anuradhapura Thuruithurugama Housing Project had sold by the Authority during the year under review had been accounted under surplus. Therefore the surplus of the year under review had been overstated by same amount.
- Actions will be undertaken in accordance with this standard in the future.
- Sri Lanka Public Sector Accounting Standards should be followed.
- (g) **Sri Lanka Public Sector Accounting Standards No. 13**
- According to paragraph No. 7 in the standard, the 02 properties, Nittambuwa Orchardwaththa and Welisara Millagahawatta, valued at Rs. 380 million received for
- Project plans for the commercial and service charges of land and
- Sri Lanka Public Sector Accounting

commercial purposes, were not identified as investment property during the year under review. Additionally, 02 housing projects valued at Rs. 146.76 million and 05 commercial units and service locations constructed in conjunction with the Lunawa housing project were classified as investments rather than as investment property. As a result, current assets were overstated by that amount, and non current assets were understated by same amount.

housing proposals which were received by the authority for commercial purpose are under review. Actions will be taken to classify them as investment property in accordance with the final decision.

Standards should be followed.

(h) **Sri Lanka Public Sector Accounting Standards No. 19**

Rs. 2.9 million employee gratuity expenses were recognized by the authority during the year under review without carrying out the functions of setting up defined contribution plans, measuring defined benefit liability, including assigned and non assigned liabilities, discounting, actuarial gain or losses. As a result, it was not possible to confirm the accuracy of the non current liability amounting to Rs. 29.64 million identified in relation to this value and its corresponding details in audit.

When calculating Sri Lanka Public Sector Accounting Standards should be followed. When calculating employee gratuity expenses, the gratuity is calculated based on the length of service, and payments will be made in accordance with the provisions of the gratuity act.

**1.5.3 Accounting Deficiencies**

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	The receivable balance from the Lunawa Housing Project for the sale of 171 residential units as of 31 December 2023 was Rs. 411.05 million. However, according to the financial statements, the receivable amount was Rs. 411.7 million, In the meantime, a difference of Rs. 0.66 million was observed.	The actions will be taken to address the discrepancies identified in the recorded value of the sold units of the Lunawa Housing Project by 31 December 2023.	Actions should be taken to account the correct value by investigating the reasons for the discrepancy.
(b)	A difference of Rs. 7.8 million was observed between the balances of 16 accounts shown in the financial statements of the authority and the supporting documents presented to audit as at 31 December 2023.	Actions will be taken to identify the discrepancies between the account balances and the corresponding supporting documents, and to reconcile the initial balances accordingly.	The differences should be reconciled, and accurate values should be accounted for.

- |     |   |   |  |
|-----|---|---|--|
| (c) | The receivable account and the current liability account were understated by Rs. 1.81 million due to the deduction of Rs. 1.81 million, From the receivable account, which was an advance payment made by debtors.  | Actions will be taken to separately account for the value of loan installments paid in advance starting from the next financial year. | The accounts should be maintained in accordance with the Principles of Accounting. |
| (d) | The receivable balance was shown as Rs. 702.6 million in the financial statements of the authority as of 31 December 2023. However, due to the deduction of a provision for doubtful debts amounting to Rs. 23.4 million, only the net value after this adjustment was reflected in the financial statements.   | Actions will be taken in the future to separately disclose this amount.   | The accounts should be maintained in accordance with the Principles of Accounting. |
| (e) | According to the valuation report dated 18 May 2022, received from the Department of Government Valuation, the assessed value of 102 land plots in Anuradhapura Thuruithurugama were Rs. 23.66 million for the year 2021. However, the authority had not adjusted this value in its accounts. As a result, the non current assets and revaluation reserve accounts of the authority were understated by Rs. 4.89 million.                       | Due to the 102 land plots have been disposed since the year 2013, their assessed value cannot be included in the accounts.            | According to the accurate valuation reports the value should be accounted.         |
| (f) | Due to the double adjustment of Rs. 1.93 million from the scattered loan account to the scattered loan receivable account during the year under review, the scattered loan stock account (non current assets) had been understated by Rs. 1.93 million. As a result, the interest income had also overstated by Rs. 0.17 million. Consequently, the scattered loan receivable balance (current assets) had been overstated by Rs. 2.11 million. | Corrective actions will be taken in the next year.  | Financial reporting should be done accurately.                                     |
| (g) | According to the sampling audit of 26 fixed deposits, which represent 65 per cent of the total fixed deposits of authority, the interest income for the year under review was Rs. 176.62 million. However, the authority recorded the interest on these fixed deposits as Rs. 174.89 million due to a deduction in withholding tax expenses.  | Actions will be taken to include the withholding tax amounts in the accounts.   | The withholding tax should be accounted in the financial statements.               |



As a result, Rs. 1.73 million of withholding tax payable, on the fixed deposits had not reflected in the accounts.

- |     |  |   |  |
|-----|--|---|--|
| (h) | Due to the failure to account of Rs. 14.03 million payables for construction activities of the Lunawa Housing Project as liabilities in the financial statements, the current liabilities for the year under review had been understated by this amount. | Due to issues with accepting the related invoice as a valid document and until a correct invoice is provided, it has not been possible to include this transaction in the accounts. | The payable amount should be recognized as a liability and recorded in the accounts. |
|-----|--|---|--|

#### 1.5.4 Going Concern of the Authority

Audit Issue	Management Comment	Recommendation	
(a)	The initial capital of the authority should be Rs. 5,000 million and it should be received by the authority in instalment basis from the consolidated fund, and eventhough 15 years had lapsed up to the end of the year under review capital had not been provided to the authority.	An amount of Rs. 5000 million that is due to the authority was requested from the Department of Public Enterprises through the Secretary of the Ministry in the year 2023.	Steps should be taken to obtain a Government Capital Grant.
(b)	According to the cabinet decision, the service charges collected from the property developers by the Urban Development Authority had been terminated. Thus, the Authority had lost its main source of income. The Urban Settlement Development Authority was unable to recover the Rs. 207.33 million in service fees that had been collected by the Urban Development Authority by the end of the review year.	According to the instructions provided during the Ministry Audit and Management Committee meeting, a committee was appointed to address the shortfall in service fees. The committee report states that the Urban Development Authority should transfer the amount of Rs. 207 million to the Urban Settlement Development Authority.	Adhere to the objectives of the Act.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a)	Although various measures had been implemented to recover loans from houses provided on a relocation basis and a sales basis, as well as from other loan balances, the progress of loan recovery at the Authority had been extremely weak. The following observations are made in this regard:	

- |       |   |  |   |
|-------|---|--|---|
| (i)   | The total loan installment amount to be recovered at the end of the year under review for 05 housing projects, covering 363 houses, provided on relocation basis by the Authority was Rs. 102.83 million. Of this, Rs. 36.32 million had to be recovered over a period of 3 to 5 years, and Rs. 39.09 million had to be recovered over a period of 5 years. These amounts represent 35.32 per cent and 38.01per cent of the total loan installment amount, respectively | Since the 5 housing projects mentioned are not specifically listed, providing an analytical answer is problematic.   | Action should be taken promptly to recover the loan.  |
| (ii)  | The total loan installment amount to be recovered at the end of the year under review for 02 housing projects, covering 32 houses, provided on a sale basis by the Authority was Rs. 39.86 million. Of this, Rs. 9.2 million had to be recovered over a period of 2 to 5 years, and Rs. 24.61 million had to be recovered over a period of 5 years. These amounts represent 23.1 per cent and 61.75 per cent of the total loan installment amount respectively.         | Providing an analytical answer is problematic since the 02 housing projects provided on a sale basis mentioned here are not specifically identified.   | Action should be taken to recover the full payment from the properties that have been disposed. |
| (iii) | The Lunawa housing project, which was transferred to public ownership on 9 April 2021, only 149 beneficiaries paying the full value of their houses as of 31 December 2023. The amount to be recovered from the remaining 207 beneficiaries was Rs. 548.45 million.   | By the management of the Authority: <ul style="list-style-type: none"> <li>• Payment of the full sales value of the house</li> <li>• Payment of 25 per cent of the sales value to reserve the house</li> </ul> | Action should be taken to recover the full payment from the properties that have been disposed. |

In addition, a new payment method was introduced, after paying 50 per cent of the sales value, the possession of the house is transferred, and the remaining 50 per cent can be paid off within a year at an annual interest rate of 6.25 per cent. This method allowed for the transfer of possession to a larger number of buyers.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Establishment Code of the Democratic Socialist Republic of Sri Lanka			
(i) Section 1.3 of Chapter II	The salary increments and promotions were granted to staff from September 2021 based solely on the approval of the Board of Directors without the approval of the Director General of the Institution in 2021. As a result of this grading, the Authority incurred an additional cost of approximately Rs. 9.9 million by December 2023 compared to previous salary levels.	In accordance with the powers delegated to the Board of Directors under the Urban Settlement Development Authority Act No. 36 of 2008, actions will be taken to refer the necessary regulatory adjustments for the grading conducted with regard to the aforementioned employee appeals, to the relevant line ministry.	Officers should be graded in accordance with the procedures outlined in the Establishment Code.
(b) Urban Settlement Development Authority Act No.36 of 2008	Eventhough the Urban Settlement Development Authority had been established to prepare a National Policy related to the development of urban settlements and to ensure the implementing of such policy, the Authority had failed to prepare such a National policy and implement it even since lapsed of 15 years after the establishment of the Authority.	The original copy of the drafted terms of references (TOR) was submitted to the Ministry.	It should be in line with the objectives of the act.
(i) Section 10 of the Act	The Authority had appointed a consulting committee by April 2017, not more than 14 members comprising with a Chairman. However, the functions which are related to the objectives of the Authority such as proposals of the Authority, plans, projects and action plans etc., had not been identified by the Committee up to end of the year under review.	Since 2017, actions have been carried out in accordance with the powers and duties under Section 15 of the Act, relevant to the objectives of the Authority.	It should be in accordance with the objectives of the act.

(ii) Section 15 of the Act	Although the authority has the power to carry out construction engineering works and other operational activities, The Thuruithurugama Housing Project had been implemented, in the purpose of whether the construction could be implemented as an engineering project with minimal time and cost. But, instead of constructing a single house, Rs. 4.9 million had been spent to build 06 houses.	In accordance with the powers outlined in Section 15 of the Act, we have built 06 houses using environmentally friendly technology to assess the feasibility of implementing as the engineering project.	Projects should be executed after doing the proper feasibility study.
(c) Section II (b) of the Finance Act No 38 of 1971	The Authority had been invested Rs.541 million in fixed deposits during the year under review and Rs.958 million in previous year, based on the approval of the Board of Directors without obtaining the approval of the Minister of Finance.	Requests have been made through the Secretary to the Line Ministry from the letter No. SMUD/F/01/USDA dated 25 November 2022 to obtain the concurrence of the Minister of Finance.	The regulations of the Finance Act should be followed.
(d) Public enterprises Circular No. 04/2022 dated 08 August 2022 (i) Section 2.3	Government Enterprises have been suspended the entering into new agreement to rent out or lease out vehicles and extention of such agreements or replacement of existing agreements shall be done based on a proper need assessment with the approval of the General treasury. But the Authority had acquired 3 vehicles under the operating lease, on the approval of the Board of Directors without obtaining the formal approval.	The Authority currently possesses only 7 vehicles, which are inadequate for its operational requirements. Due to delays in obtaining the necessary approval from the General Treasury, the Authority has obtained approval from the Board of Directors to acquire leased vehicles.	Should be acted as per the circular instructions.
(ii) Section 2.5	Although the board of directors had been instructed to ensure that new allowance for employees should not introduced and existing allowances should not be increased, contrary to it,	Due to the lack of sufficient number of drivers, attention has been given to the points mentioned in Section 3.Xiii of the Public enterprises Circular No.	Circular instructions Should be followed.

authority had been paid to the transport allowance of Rs. 15,000 for executive officers and Rs. 5,000 for MM-1 salary grade officers totaling to Rs. 8 million during the year under review, and Rs. 0.76 million transport allowance had been paid to executive officers in the previous year, with the approval of board of directors.

03/2022 for the carrying out tasks on organizational needs from limited drivers who were currently employed. Instructions have been given to the officers to address and correct the existing deficiencies.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 210.59 million and the corresponding surplus in the preceding year amounted to Rs. 364.72 million. Therefore, deterioration amounting to Rs. 154.13 million of the financial result was observed. The decrease of Rs. 207.73 million in housing disposal profits for the year under review compared to the previous year, along with increases in transportation allowances, vehicle rental expenses, and vehicle maintenance costs by Rs. 6.08 million, Rs. 3.29 million, and Rs. 4.33 million respectively, had mainly affected for deterioration in the financial results.

### 2.2 Trend Analysis of major Income and Expenditure items

According to the information included in the financial statements, the following observations were made based on the analysis made relating to the financial result of the year under review and the preceding year.

Year	2023 Rs. Million	2022 Rs. Million
Treasury grants – Recurrent Expenditure	151.49	155
Deferred Income –On Fixed Assets	-	11.4
Interest Income	240.36	161.8
Other Income	1.44	12.99
Personal Emoluments	119.74	118.95
Travelling Expenses	1.56	1.95
Surplus	210.59	364.72

- (a) Interest income had been increased by 48 per cent during the year under review as compared to the previous year. This was mainly due to the increase of interest income on fixed deposit by 50 per cent.
- (b) During the year under review, 33.62 per cent of the total revenue of the Authority was generated from Treasury Grants, 07 per cent from non exchange transactions and 59 per cent from operational activities.

- (c) Compared to the previous year, the maintenance expenses had been increased by 47 per cent. This was mainly due to the increase of vehicle repair charges by 110 per cent from Rs.3.93 million to Rs. 8.26 million.

## 2.3 Ratio Analysis

In the preceding year the current ratio of the Authority was 18.4:1 and during the year under review, it had been increased up to 33.7:1. However, investment property worth Rs. 146.76 million and receivables from the Urban Development Authority amounting to Rs. 207.33 million had been included in the current assets. Additionally, the General Treasury, payable amounting to Rs. 1,167 million and amounts payable to creditors of Rs. 14.03 million, had not been included in the current liabilities.

## 3. Operational Review

### 3.1 Management Inefficiencies

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	The authority had issued deeds for 588 housing loan units out of 1714 housing units related to 09 housing schemes constructed on the relocation and sales basis by the end of the year under review. However, deeds for 1126 housing units had not yet been provided to the owners. The main reasons for this were the incomplete land acquisition processes and delays in obtaining Condominium Certificates.	The recommendations, "Extend the validity of the "Apartment ownership (Special Provisions) Act No. 23 of 2018" to cover high-rise buildings constructed before 2015 and include the Urban Settelement Development Authority under this Act", have been sent to the line ministries with the aim of addressing technological issues and facilitate the proper transfer of condominium properties.	Technical issues need to be resolved and the property should be transferred properly and promptly.
(b)	The possession of 53 housing units worth Rs. 62.87 million in the Angulana housing scheme, which was constructed for fishermen, had been granted to actors and sportsmen through freehold papers without any charge. Subsequently, according to a Cabinet decision, it was decided to charge a reasonable price from the beneficiaries. As a result, Rs. 55.48 million had still	According to the Attorney General's advice on 04 December 2022, actions were taken to cancel the freehold rights. These beneficiaries were informed that agreements should be made for a reasonable price as per the Cabinet decision. As per the written notice, 27 beneficiaries out of the 53 beneficiaries, entered into agreements and 11 individuals arranged to return their housing units. These units have been reallocated to new beneficiaries. Accordingly, the legal disposal of 38 out of the 53 units has been completed to	Actions should be taken to charge a reasonable amount for the housing units in accordance with the Cabinet decision.

expected from the remaining date.  
38 housing units. According to the Attorney General's advice, actions had been taken to cancel the freehold rights of individuals who had not made payments, and the authority continued to work on the disposal of 15 housing units.

- (c) According to the Cabinet decision, housing units should be disposed by determining the sales price by adding 20 per cent to the government valuation of the housing units. However, contrary to this, the Board of Directors had decided to charge only the government valuation on the sales price for the units which are given to 24 officials and incurred a loss of Rs. 20.68 million to the government. Additionally, the authority had not received of Rs. 95.34 million from the sale of housing units to its staff by the end of the year under review.
- In accordance with the management powers granted under Section 3 of the Urban Settlement Development Authority Act No. 36 of 2008, housing units have been allocated to 24 qualified senior officials based on proper procedures.
- Should be acted according to the Cabinet decision.
- (d) It was decided by the Board of Directors to transfer 67 commercial units worth Rs. 44.78 million and 57 service units those value had not been identified which were constructed by Real Estate Exchange (Pvt) Ltd, to the Management Committee under the Condominium Management Authority on a free grant basis. As a result, the potential rental income that could have been generated from renting out these units was forfeited.
- Steps will be taken to properly dispose the commercial units after receiving the valuation report.
- The authority should take steps to generate income from the commercial units

- |     |  |  |  |
|-----|--|--|--|
| (e) | Contrary to the Cabinet decisions dated 22 December 2020, 03 housing units in the Lunawa housing scheme, worth Rs. 9.3 million, had been allocated without charging the sale price as per the agreements.  | All funds will be collected in accordance with the agreements made with the authority at the time of providing the deeds.  | Action should be taken to collect the sale value from the disposed houses in accordance with the Cabinet decision.   |
| (f) | Although the possession of the houses in the housing projects had been handed over to the beneficiaries, the transfer of ownership of the land for the Borella Wadulu Sewana Housing Project, Lidula Thalawakelle Housing Project, and Angulana Sayurapura Housing Complex had not been completed by the end of the year under review.   | The Urban Development Authority (UDA) owns the land for the Wadulu Sevana Housing Project (Borella). The land of the Talawakelle Housing Project (Lindula) cannot be transferred to our authority until the Appeal Court's legal proceedings are concluded. For the Angulana "Sayurapura" Housing Project, 02 out of 03 land plots have been legally transferred to our authority.   | The ownership of the land should be transferred to the authority.  |
| (g) | The complaints were received to the authority regarding the water leakage from the walls, due to the absence of painting waterproof paint on the walls in the Moratuwa Lunawa Housing Complex which were initially intended for low income beneficiarys' use but later sold to middle income beneficiaries, after six months of its handover to the public. Currently, a bank guarantee worth Rs. 61.58 million has been expired. The Board of Directors had approved the expenditure of Rs. 41.38 million (excluding VAT) from the sale of Lunawa housing units for the maintenance of these buildings.If this work had been completed at the initial stage, the costs incurred could | The contractor (State Engineering Corporation), the project manager (State Development and Construction Corporation), and the project consultant (State Engineering Corporation) have confirmed in writing that the component was considered a non essential and therefore was not included in the primary project scope. Actions will be taken to inform the line ministry to take the necessary actions regarding this matter. The State Engineering Corporation has informed us that efforts are taken to update the bank guarantee as soon as possible. Approval was granted through Board Paper No. 10/2023/10 to obtain financial provision from the internal funds of the authority for the refurbishment work required to address water leakage. | Housing projects should be carried out according to the specified standards, and efforts should be made to identify the costs associated with these projects accurately. |



have been recovered from the beneficiaries. However, due to poor management decisions, this opportunity had been missed.

### 3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
According to the instructions given by the Attorney General on 28 October 2021 in relation to the financial fraud that occurred during the takeover of the Real Estate Exchange (Private) Company Limited to the Authority, The line ministry should take actions for, considering whether the legal proceedings can be filed against the responsible parties caused for loss and loss incurred to the government should be properly calculated according to Finance Regulation 103 (Chapter II). But the line ministry had not done it even by April 2024.	According to the request made by the line ministry, the Urban Settlement Development Authority has appointed a committee to investigate this matter. The report is scheduled to be submitted to the Board of Directors for approval. It is expected to make disclosures related to this amount in the financial statements after following a formal legal review.	Proper action should be taken to recover the losses incurred by the government.

### 3.3 Systematic and Control Weaknesses

Audit Issue	Management Comment	Recommendation
Eventhough the recovery division of the authority maintains separate loan accounts for beneficiaries of each housing project, the finance department did not maintain separate ledger accounts for each debtor. As a result, a difference of Rs. 7.8 million was observed between the loan balance recorded by the recovery department and the loan balance in the finance department.	The loan process is currently planned to be conducted under a computerized software system, with separate accounts maintained for each debtor. The recovery department and the finance department are planning to integrate the loan module into the accounting system.	Separate control accounts for receivables and payables should be maintained for each debtor and creditor.

### 3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
The 06 houses constructed under Environmentally Friendly technology (Sudaraka Technology), at a cost of Rs. 4.9 million, located in Anuradhapura Thuruithurugama, had been certified as unsuitable for human habitation by the National Engineering Research and	Arrangements will be made to terminate the contract of security guard after the completion of disposing these 06 housing houses.	A feasibility study should be conducted, before commencing a project.

Development Centre (NERDC) and the engineer of the authority. Further those houses had not been properly maintained and remained idle for 11 years, from 2013 until April 2024. However, since 2018, a security guard has been employed, and a total cost of Rs. 2.75 million has been incurred for his salary and other allowances.

### 3.5 Human Resources Management

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	It was instructed by the Director General of the Management Services Department in 2019 that the recruitment procedures of the authority be updated according to the new format and submitted for approval. However, this requirement had not been fulfilled, up to March 2024.	Since the recruitment procedures of the Urban Settlement Development Authority were developed according to the old format, actions have been taken to revise them in accordance with the new format.	Immediate action must be taken to obtain approval from the Management Services Department.
(b)	The approved permanent cadre of the Authority as at 31 December 2023 was 151 and the approved contract cadre was 29. At that date, the actual cadre were 116 for permanent staff and 2 for contract staff. Consequently, there were 35 vacancies in the permanent staff and 27 in the contract staff, with 1 excess contract staff member. The existence of such vacancies had directly affected the lower performance of the institution.	Due to recruitment limitations imposed by the circular, action will be taken to obtain approvals for filling vacancies by stating the institutional needs, through the Management Services Department, via the Line Ministry.	Vacancies must be filled based on the approved cadre.

**4. Accountability and Good Governance**  
**4.1 Performance**

Audit Issue	Management Comment	Recommendation
<p>(a) An allocation of Rs. 22.25 million had been made for 03 housing projects: development of infrastructure and landscaping in Phase 01 of the Chilaw Housing Project, Waterproofing of slab roofs in the Sahaspura Housing Project, and construction of secure fence in the Angulana Housing Project. However, physical progress had not been achieved in any of these projects.</p>	<p>Under the establishment of community committees, Rs. 0.16 million has been allocated for the installation of CCTV cameras in the Angulana 'Sayurapura' housing project to ensure its sustainability.</p> <p>It has been informed to the Authority that, due to the absence of allocated provisions according to the new estimate prepared for the improvement of the drainage system and provide the infrastructure facilities in the Chilaw 'Nariyagodella' housing project, the work cannot be carried out by the Chilaw Pradeshiya Sabha.</p> <p>Angulana Housing Project - The construction of secure fence has not been physically carried out.</p> <p>Sahaspura Housing Project - It has been confirmed by the National Housing Development Authority and informed to our Authority that the remaining funds allocated for the 'Nagamu Purawara' program for waterproofing the slab roofs, are not physically available with the National Housing Development Authority.</p>	<p>Efforts should be made to achieve the expected performance from the projects.</p>

- (b) According to the 2023 performance report, the following observations were made regarding the primary works related to the middle income housing projects of Authority, executed under Public Private Partnership.
- (i) Although it was expected that 100 per cent progress would be achieved by December 2023 in identifying land for development projects, any physical or financial progress had not been achieved by the end of the year 2023. Since financial provisions were not required for the activities related to land identification, no financial progress has been stated. Accurate information must be included in the activity plan.
- (ii) Physical progress of the 5 projects ranged from 8 per cent to 26 per cent whereas financial progress was below 14 per cent. The authority had been allocated Rs. 127.43 million from the internal earnings of the authority for these 5 projects, however only Rs. 7.55 million had been utilized during the year under review. Due to delays in obtaining approval for the Cabinet paper submitted for selecting an investor for the Welisara Housing Project, the planned progress could not be achieved in the year 2023. Due to the non receipt of the land valuation report for the Nittambuwa Orchardwatta Housing Project for 2023, it was unable to proceed with the subsequent actions. There have been delays in obtaining the necessary preliminary clearances from each institution for the Mixed Development Project in Sri Jayawardenepura. Proposal has been sent on on 16 November 2023 to the National Procurement Department (NPD) for obtaining approval for the Phases I and II of Thuduwegoda Housing Project. Approval has not yet been granted for this. Due to the inability to complete the land acquisition for the Athurugiriya Housing Project within that year, provisions were not utilized. Achievable Objectives should be included in the action plan.

Due to the aforementioned reasons, it was not possible to achieve the financial progress planned for the remaining 5 development projects.