

## **National Housing Development Authority and its Subsidiary - 2013**

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The audit of financial statements of the National Housing Development Authority and the consolidated financial statements of the Authority and its Subsidiary for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity 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 29.1 of the Housing Development Authority Act, No. 17 of 1979. 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 the 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 judgment, 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 Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**

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**2.1 Qualified Opinion**

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**Qualified Opinion – Authority**

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In my opinion, except for the effects of the matters described in paragraph 2.3 of this report, the financial statements give a true and fair view of the financial position of the National Housing Development Authority as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**Qualified Opinion - Group**

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In my opinion, except for the effects of the matters described in paragraphs 2.2 and 2.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the National Housing Development Authority and its Subsidiary as at 31 December 2013 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 – Group**

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The following observations are made.

- (a) Even though the National Housing Development Authority owned 49 per cent of the total share capital of the Sri Lanka Housing Development Finance Corporation Bank, the final financial statements of the Bank had not been consolidated with the accounts of the Authority as the Authority cannot exert adequate influence in the affairs of the Bank.
- (b) Even though the Authority had included assets, liabilities and equity of its Group in the statement of consolidated financial position, detailed information thereon had not been indicated as notes in the consolidated financial statement.
- (c) A statement of financial performance prepared for the Group had not been included in the consolidated financial statement.
- (d) Connected parties and their transactions had not been disclosed by the financial statements.

**2.3 Comments on Financial Statements - Authority**

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**2.3.1 Sri Lanka Public Sector Accounting Standards**

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**Sri Lanka Public Sector Accounting Standards No. 1- Presentation of Financial Statements**

- (a) Even though adequate disclosures relating to all components shown in the face of financial statements should be made in the financial statements, the Authority had not made adequate disclosures in respect of foreign grants amounting to Rs. 131.68 million in the financial statements.

(b) The following matters which should be disclosed in the information published with the financial statements had not been disclosed by the Authority.

(i) Location of the Authority, juristic nature and zones of enforcement

(ii) Nature of the operations of the Authority and details of its key functions

(iii) Reference in respect of the Article relating to control of operations of the Authority

### 2.3.2 Accounting Policies shown in the Financial Statements

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(a) According to the **Accounting Policy No.3.3**, the stock should be valued at the lower value out of the cost or net realizable value. The present net realizable value of 04 houses valued at Rs. 20.97 million in the final stock had been shown at the valuation of the year 2009 without being valued.

(b) According to the **Accounting Policy No.6.4**, except the outstanding housing loan balance, 20 per cent of the outstanding loan amount of all other debtors is provided for bad and doubtful debts without considering the age analysis. However, considering the age analysis, as the total loan balance of Rs. 846.39 million had been outstanding over 05 years, it could not be accepted in audit that the aforesaid policy had been based on the risk of recovering loans. Even though provisions of Rs. 200.80 million should be made for those debtors according to the aforesaid policy, the provisions made in the accounts amounted to Rs. 140.67 million.

(c) According to the **Accounting Policy No.6.4**, it had been stated that a sum of Rs.58.12 million receivable from the Department of Sri Lanka Railways (CGR) Housing Project, Maligawatte would be set off against payable compensation on lands. Nevertheless, the amount of additional provisions which should be made for that purpose could not be estimated in audit due to non-presentation of detailed list of loan balances and detailed information relating to compensation on lands payable, to audit.

(d) According to the **Accounting Policy No. 10.1.1**, the estimated market value of lands acquired without the payment of compensation for a housing purpose should be brought into the Lands Accounts. Nevertheless, not including the estimated market value of the lands sold based on failure to account so in the cost of sales of lands had resulted in the unusual increase of the gross profit ratio of sale of lands. For example, the gross profit ratio had taken a high value as 98 per cent, as a result the cost of sales amounted to Rs. 3.93 million relating to sales turnover of lands of Rs. 259.67 million of the year under review.

### 2.3.3 Accounting Deficiencies

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The following accounting deficiencies were observed.

- (a) The blocks of land still remaining in most of the Housing Schemes and lands obtained / acquired for Housing Schemes, 943 hectares in extent had not been valued and brought to account.
- (b) Even though only the cost of houses valued at Rs. 18.51 million completed in the year under review relating to the pre-sold housing programme had been transferred to the housing stock, the value of lands thereon had not been brought to account. As such, the value of the housing stock and acquired lands had not been accurately reflected in the financial statements.
- (c) The value relating to 29 blocks of lands where office buildings of the Authority had been constructed, had not been assessed and brought to account.
- (d) The Value Added Tax amounting to Rs. 1,353,185 payable at the end of the year under review had not been brought to account.
- (e) Two houses of the Jalthara Housing Project valued at Rs. 3.42 million retained by the Authority had been shown in the financial statements as a balance payable to the General Treasury and not as a balance payable to the Housing Development Finance Corporation Bank.
- (f) The value of bonus shares of the Housing Development Finance Corporation Bank amounting to Rs. 276.5 million had been shown as Domestic Grants instead of being shown as a Capital Reserve.
- (g) The liability amounting to Rs. 17.65 million payable to the Treasury on behalf of the Jalthara Housing Project by the Authority had been brought to account under the Capital Reserve.
- (h) Other expenses amounting to Rs. 117.73 million of non-financial expenses such as commission paid to debt collectors, audit fees and bad and doubtful debts had been included in financial expenses.
- (i) Even though gratuity provisions as at the end of the year under review valued at Rs. 520.22 million should be shown under non-current liabilities, that value had been shown under current liabilities.
- (j) A sum of Rs. 13.31 million received for the Galaha Estate Housing Project from the National Livestock Development Board had been brought to account under other Aid Account without making necessary adjustments in accounts despite the elapse of over 05 years after completion of the relevant purpose.
- (k) The value of lands and buildings shown in the financial statements had not been accurately reflected even from the year 2006 due to failure in taking action to compute the value of houses of the Lease Housing and Urban Housing Schemes for which deeds had been granted.

The number of housing units for which deeds had been granted, relating to 08 housing schemes in the year under review had been 85.

- (l) Adequate provisions in respect of 13 motor vehicles valued at Rs. 1,940,000 misplaced in areas of North and East in the year 2005 had not been made in accounts.

#### 2.3.4 Unexplained Differences and Unreconciled Accounts

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- (a) The balances shown in financial statements had not been reconciled with the balances mentioned in the relevant schedules and a difference of Rs. 10.39 million was observed as follows.

Item	According to Accounts	According to Schedules	Difference
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	Rs. millions	Rs. millions	Rs. millions
People's Bank (Upahara Loan Programme 2013)	762.77	763.29	0.52
Bank of Ceylon (Upahara Loan Programme 2011)	1,127.40	1,126.90	0.50
Value of Thuriyapallivasal Land in Mannar	0.08	-	0.08
Value of Nothariswatta Land in Ratnapura	19.41	10.20	9.20
Value of Bloemendhal Land in Colombo	-	0.09	0.09
Total	1,909.66	1,900.48	10.39
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- (b) The difference of Rs. 431,700 between the current accounts maintained by the Authority for operations with District Offices had not been settled.

#### 2.3.5 Lack of Evidence for Audit

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Detailed information relating to acquired lands valued at Rs. 212.07 million and items of Value Added Tax of Rs. 3.55 million had not been presented.

#### 2.4 Accounts Receivable and Payable

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The following observations are made.

- (a) Out of the total debtors balance as at the end of the year under review amounting to Rs.3,656.48 million, the value of balances receivable brought forward over a period exceeding 05 years totalled Rs.2,406.6 million and represented 66 per cent of total debtors. It was not observed in audit that the Authority had taken adequate action for the recovery of those debts.

- (b) Out of the advances granted to contractors, other external parties and officers as at the end of the year under review totalled Rs.82.89 million, the Authority had not taken action to settle the sum of Rs.80.24 million lapsed over a period of 02 years after completion of the relevant purposes.
- (c) The value of creditors as at the end of the year under review amounted to Rs.1,609 million. Out of that, the value of creditors between 02 to 05 years and over 05 years amounted to Rs.29.2 million and Rs. 1,057.26 million respectively. No arrangement whatsoever in settling this loan was observed in audit.
- (d) The outstanding loan installments amounting to Rs.713.84 million payable in connection with loans for projects obtained from 04 other institutions and the outstanding interest on loans amounting to Rs.512.02 million had not been settled over a long period and a financial plan to pay and settle that outstanding loan and interest as well was not available.
- (e) The compensation on lands payable as at 31 December 2013 amounted to Rs.324 million and no action had been taken to settle the compensation of lands valued at Rs. 100 million remaining payable over a period exceeding 05 years from the date of takeover of the tenure by the Authority.
- (f) The advances amounting to Rs. 6.28 million receivable from the Condominium Management Authority included in the financial statements of the Authority had not been included in the financial statements of the Condominium Management Authority. However, the Authority had not taken action to obtain confirmation of the balances and make necessary adjustments in the financial statements.
- (g) Out of the sum of Rs. 5,297,604 receivable to the Authority for the land with an extent of 726.35 perches granted from the Ethnawala Estate by the Authority to the Red Crescent Society of the United Arab Emirates for the construction of a Housing Project consisting 60 houses in the year 1998, the Authority had failed to recover a sum of Rs. 1,882,604 as at the end of the year under review.
- (h) Even though the lost amount of Rs. 774,515 existing from the year 2001 had been shown as a receivable balance, no adequate action had been taken thereon.
- (i) The construction of a building complex at Orugodawatta, located on a land belonging to the Urban Development Authority had been abandoned in the year 2005 after spending a sum of Rs.39.9 million by the Authority on the construction. However, that amount had been shown in accounts as money receivable.
- (j) It had been confirmed that the Authority cannot recover the housing loans amounting to Rs.5,965,000 granted under the Thrift and Credit Co-operative Societies (TCCS) Loan Scheme by the Jaffna District Office as 1,468 housing loan files had been misplaced. Nevertheless, no action whatsoever had been taken in this connection during the year 2013.

2.5 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

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**Reference to Laws, Rules, Regulations and Management Decisions**

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**Non-compliance**

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| (a) | Inland Revenue Act, No. 10 of 2006, Part XIV<br><br>Section 114 and Public Enterprises Circular No. 02/2013 of 11 September 2013 | Even though the Pay As You Earn Tax should be deducted from the salary of employees and paid, without doing so the Authority had paid a sum of Rs. 117,300 as tax in the year under review.  |
| (b) | Payment of Gratuity Act, No. 12 of 1983  | Even though provisions of Rs. 555.07 million had been made for gratuity as at the end of the year under review, the value of investment made externally amounted to only Rs. 34.85 million as at the end of the year review.   |
| (c) | Finance Act, No.38 of 1971<br>Section 11(b)  | The concurrence of the Minister of Finance and Planning should be obtained for investment of money. Nevertheless, the approval had not been obtained in respect of investments of Rs. 540.6 million made by the Authority.   |
| (d) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka<br><br>Financial Regulation 104                          | Reports relating to damages valued at Rs. 457,234 caused to 11 vehicle accidents and 12 vehicle accidents which were not estimated, had not been presented to the Auditor General.   |
| (e) | Instructions for issue of Upahara Loans<br><br>Sections 7.3 and 7.4.1  | Even though the land on which the house is constructed or improved is located, should be legally owned by the creditor or spouse, loans amounting to Rs. 975,000 had been granted to two officers of the Authority to improve houses located on lands owned by another party for which by the creditors do not have legal ownership. |
| (f) | Cabinet Decision No. 13/0463/517/010 dated 17 June 2013  | Even though the prices of houses on pre-sold basis should be decided on a reasonable price so as to enable public officers and middle class people to purchase, the Authority had valued those housing units   |

at a high price unaffordable for low and average income earners.

Examples – The value of a house constructed at Kavirathne Place, Pamankada in Colombo amounted to Rs. 33.2 million and the value of a house constructed under Phase V, Elvitigala amounted to approximately Rs. 15 million.

### 3. **Financial Review**

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#### 3:1 **Financial Results**

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According to the financial statements, the financial result of the Authority for the year ended 31 December 2013 had been a deficit of Rs.232,602,241 as compared with the corresponding deficit of Rs.303,405,460 for the preceding year, thus indicating an increase of Rs.73,803,219 in the financial result as compared with the preceding year and represented a decrease of 23 per cent in the deficit. The increase of loan interest income by Rs.327,239,161 and sales income of lands and houses by Rs.139,732,510 during the year under review as compared with the preceding year had mainly affected the improvement of the financial result.

#### 3.2 **Analytical Financial Review**

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The following observations are made.

- (i) The rent income of the year under review had increased by 19 per cent.
- (ii) Sales profit from houses and lands had increased by 42 per cent and 50 per cent respectively.
- (iii) The income on the sum of Rs.245.27 million received from the Treasury for the repairs of condominium properties had increased by 12 per cent.
- (iv) The financial expenditure on payment of interest on Bank loans by the Authority had increased by 72 per cent as compared with the preceding year.
- (v) As a percentage of the total income, the net loss of the year under review had been 12 per cent.
- (vi) The current ratio and the quick asset ratio of the Authority for the year under review had been 1:1.12 and 1:1.29 respectively. As such, it was observed that the Authority had a deficiency in the working capital necessary for operating activities.



4. **Operating Review**

4.1 **Performance**

The following observations are made.

- (a) The physical progress of the completed constructions under Janasevana Wiru Gammana, Wisiri Niwasa, Upahara Niwasa Loans and the Sasunin Sevana Housing Programmes had been at a level between 1 per cent and 15 per cent.
- (b) Even though the construction of 3,152 housing units at a cost of Rs.22,369 million in 14 Housing Schemes under the Millennium Lanka Project (Investment Projects, Public and Private Contributory Houses) had been planned for constructions, the work of 02 Housing Schemes had been commenced while the work of 02 Housing Schemes costing Rs.1,196.5 million had been stopped. The construction of even one house had not been completed by the end of the year under review.
- (c) Millennium Lanka Housing Programme (Direct Constructions and Resettlements)
  - (i) Even though it had been planned in the year under review to construct 60 housing units with Rs.250 million, no work on any housing unit whatsoever had been commenced due to the delay in selecting contractors.
  - (ii) The physical progress of construction works by the end of the year under review had been 49 per cent due to the delay in making payments to the contractors of the Siyane Uyana Housing Project Yakkala of which work commenced in the year 2011 and scheduled for completion in the year under review.

4.2 **Management Inefficiencies**

The following observations are made.

- (a) Even though the Authority had taken over the tenure of most lands under Section 38(a) of the Land Acquisition Act for which compensation is payable, a long period had been taken in the course of taking over the land tenure of certain lands due to the problems that had arisen. As such, the compensation payable as at the end of the year under review amounted to Rs.41,958,932 and the outstanding interest payable thereon amounted to Rs.52,221,612.
- (b) There had been difficulties in obtaining the Certificates of Conformity relating to 1,986 housing units of 26 housing schemes as at the end of the year under review as houses had been constructed without obtaining the approval for the housing plans from the respective Local Authorities before the commencement of construction of Housing Schemes. As a result, the relevant houses of the Housing Schemes could not be transferred to the respective owners and to establish Management Corporations. As such, the Authority had to continue carrying out repairs and maintenance of those Housing Schemes. Thus, the Authority had to spend a sum of Rs.13.57 million for maintenance and a sum of Rs.245.6 million for repairs of such Housing Schemes in the year under

review. It was observed that the failure to pay attention by the Management to the matters of primary concern had caused this.

- (c) It was observed that the Authority did not have a specific procedure to recover the balance of the loan granted during the years 1989 to 1994 to 507 families in the Kurunegala District for the purchase of solar energy systems, amounting to Rs. 4,104,961 recoverable as at the end of the year under review.
- (d) Even though a construction cost of Rs.20 million had been incurred on the Mahaiyawa Housing Project consisting 32 houses constructed by the Authority on a land belonging to the Kandy Municipal Council, action had not been taken by the Authority even by the end of the year under review for the recovery of the money from the Kandy Municipal Council.
- (e) According to the Land Survey Report of the year 2010, lands with an extent of 645.66 hectares belonging to the Authority had been identified and it had been identified that out of it, 208.75 hectares of land had been encroached by the end of the year under review. Similarly, a survey relating to lands in 05 districts of the Northern Province as well had not been carried out even by the end of the year under review.
- (f) Even though 11 houses costing Rs.22.52 million had been reserved for over a period of 03 years, action had not been taken by the Authority to further recover the sum of Rs.47.66 million to be recovered in this connection as at the year under review.
- (g) The Authority had failed to settle even by 31 December 2013, the sum of Rs.195 million, out of the loan of Rs.250 million obtained from the President's Fund in the year 1991 at an annual interest rate of 15 per cent as agreed by the Authority. The outstanding loan and interest balance as at that date due to non -payment of loan instalments properly, amounted to Rs.286.66 million. However, it was not observed in audit that the Authority had made any attempt whatsoever to reduce the high interest rate payable.
- (h) The Authority had collected a sum of Rs.22.61million as housing rent income in the year under review and the corresponding income of the preceding year amounted to Rs.38.98 million. Matters such as failure to revise the lease rent income in accordance with the present assessment and introduce a suitable system of varied fees considering the environmental factors had resulted in the low level of income shown.

#### 4.3 Weaknesses in the Tax Management

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The following observations are made.

- (a) According to Letter No.409032877 of 07 November 2013 sent to the Authority by the Department of Inland Revenue relating to the National Institute of Machinery, action had not been taken by the Authority to pay or settle the tax amounting to Rs.15.33 million payable in respect of the years 2009 and 2010 and the penalty thereon amounting to Rs.7.12 million under the Value Added Tax Number of the Authority even up to 31 October 2014.
- (b) Action had not been taken to settle the deferred tax liability amounting to Rs.22.45 million as at the end of the year under review.

- (c) The recovery or the set off of the overpayment of Value Added Tax amounting to Rs.14.38 million in respect of the years 2003, 2004 and 2005 for which no action had been taken even by the end of the year under review, had been further shown as a receivable amount.

#### 4.4 **Operating Inefficiencies**

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The main function of the Authority is to provide a secure house with basic amenities for every family in Sri Lanka. However, the following weaknesses were revealed in carrying out this purpose and as such it was observed that the attention of the Management had not been paid in this connection.

- (a) Even though an advance of Rs.1,000,000 had been obtained on 19 January 2005 for a house valued at Rs.6,195,522 of the 93 Watta Housing Project, action had not been taken to enter into a sales agreement and recover the balance even at the end of the year under review.
- (b) Two houses belonging to the Authority in the Homagama, Jalthara and Diyawanna Gardens Housing Schemes had been released for occupation by the end of the year under review to three persons outside the housing disposal methodology without entering into an agreement or even obtaining an advance.
- (c) The District Office Kandy had spent Rs.2.67 million to construct 16 houses for the Galaha Housing Scheme from the year 1998 to the year 2001 and the construction works of those houses had been discontinued. A proper arrangement had not been made thereon and remained idle even up to 2004. As such those houses remain encroached and occupied by unauthorized persons up to date.
- (d) Even though there were 11 unresolved Bank entries valued at Rs. 2,135,939 in the Head Office and 07 District Offices according to the Bank Reconciliation Statements as at 31 December 2013, no action had been taken to settle them.
- (e) The Authority had released a sum of Rs.756,785 received in the year 2008 from the Ministry of Nation Building and Estates Infrastructure Development to the Plantation Human Development Trust for the Estates Housing Projects of the Millakanda and the Procestor Estates in connection with the Estates Housing Programme. Nevertheless, those sectors had not implemented relevant projects even by the end of the year under review. However, no follow-up action whatsoever had been taken thereon by the Authority.
- (f) No action had been taken even up to the year under review to sell 13 houses and 08 shops completed over 04 years ago.

#### 4.5 **Transactions of Contentious Nature**

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A sum of Rs. 8.69 million had been paid on 20 March 2012 on the valuation obtained on 19 April 2000 for the acquisition of the land called Galkaduwwatta situated in Ratnapura belonging to the Urban Development Authority. As this valuation was limited only for one year and a period of 12 years had been taken by the Authority to make those payments, the Urban Development Authority had

informed the Authority to pay the new valuation of the land for the year 2012 amounting to Rs. 145 million. However, the Authority had not taken a final decision either for acquisition of the land or abandonment of the acquisition even by 31 December 2014.

#### 4.6 **Idle and Underutilized Assets**

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According to the matters pointed out by the audit reports for the years from 2008 to 2012, the land 01 acre and 26.5 perches in extent situated at Darley Road had been allocated for a Housing Development Project in terms of a Joint Business Agreement entered into between the Housing Development Authority and a private company. Nevertheless, this land had remained idle from the year 2008 due to non-implementation of that Joint Business Agreement even by 31 December 2014.

#### 4.7 **Loans Control**

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The debtors balance and the capital balance of the Housing Loans Programme as at the end of the year under review had been Rs. 2,531.53 million and Rs. 11,269.34 million respectively and the corresponding balances as at the end of the preceding year amounted to Rs.2,412.31 million and Rs.8,223.61 million respectively.

The following observations are made.

- (a) The actual recoveries made during the year under review amounted to Rs.2,385.75 million and that represented 74 per cent of the budgeted recoveries.
- (b) The Authority had taken into consideration only 73 per cent of the total debtors in determining the budgeted amount for recovery. As such, that was observed as a weakness in the loan management system.
- (c) The number of dormant debtors during the year under review represented about 78 per cent of the total number of debtors.
- (d) Even though a cost of Rs.57.34 million had been incurred for commission for the collection of debts, the debtors older than 03 years represented about 76 per cent of the total debtors. As compared with the preceding year, the progress on the recovery of those loans in the year under review had been about 5.8 per cent.
- (e) The Authority had obtained loans from State Banks for the implementation of the Upahara Loan Programme. The Authority had entered into agreements to make payments to the Banks on the specified dates. (Even though the monthly loan installments together with interest are not received regularly by the Authority) As such the Authority had paid the arrears of payments amounting to Rs.125.19 million which should be paid to the Authority by creditors, to the Banks instead, from the Funds of the Authority as at the end of the year under review.

#### 4.8 **Resources of the Authority given to other Government Institutions**

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- (a) The salaries paid to 19 officers / employees who were deployed in service of the Line Ministry and the Ministry of Education contrary to the provisions in Paragraph 9.4 of the Public Enterprises

Circular No. PED/12 of 02 June 2003 amounted to Rs.6.41 million as at the end of the year under review. In addition to that 06 motor vehicles had been provided to the Line Ministry.

- (b) The amount recoverable by the Authority as at 31 December 2013 in respect of employees and officers deployed in other Government Institutions amounted to Rs. 71.84 million. It was observed that out of that amount, a sum of Rs. 18.43 million had been older than 02 years and a further sum of Rs. 46.69 million had not been recovered for over a period of 05 years.

#### 4.9 **Human Resources Management**

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The following observations are made.

- (a) Even though the approved cadre of the Authority had been stated as 2,493 in the Human Resources Plan of the Authority, the cadre approved by the Department of Management Services as at 31 December 2013 had been 1,375. In view of the actual cadre as at that date being 2,307, the existence of 932 employees exceeding the approved staff was observed. The excess staff included 476 officers recruited on the daily paid basis and 42 officers recruited on contract basis.
- (b) Contrary to the provisions in Section 9.3.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, twenty four officers had been deployed in acting capacity and to covering up duties over periods ranging from 01 month to 07 years.

### 5. **Accountability and Good Governance**

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#### 5.1 **Corporate Plan**

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- (a) The progress of achievement of the activities of the Corporate Plan at the end of each year and the areas not implemented as well as slow moving had not been evaluated and a report on future action had not been prepared and brought to the notice of the Board of Directors in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003.
- (b) Even though the unavailability of an adequate staff had been identified as a weakness of implementation of the Corporate Plan prepared for the period from 2013 – 2017 by the Authority, the number of vacancies of essential professionals at the end of the year under review had been 08.

#### 5.2 **Action Plan**

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Even though the construction of 40,169 housing units had been planned according to the Action Plan, the Authority had failed to complete the constructions of 21,290 housing units or 53 per cent by the end of the year under review.

### 5.3 Internal Audit

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The following observations are made in connection with the Internal Audit.

- (a) Certain District Offices had not been audited over several years.
- (b) The activities included in the Annual Audit Programme had not paid adequate attention to the performance audit.
- (c) Even though the approved cadre for the Internal Audit had been 48, the number of officers deployed as at the end of the year under review had been 21.

### 5.4 Budgetary Control

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A significant variance was observed between the estimated and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

### 5.5 Annual Reports

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The Authority had not tabled the Annual Report for the year 2012 in Parliament even by the end of the year under review.

### 5.6 Unresolved Audit Paragraphs

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Valuation from the Government Valuer had not been obtained for the sale of the Liberty Plaza Circuit Bungalow owned by the Authority to the Ocean View Development Company and only the Valuation of the Valuer of the Authority had been obtained. The valuation subsequently obtained from the Government Valuer amounted to Rs.11,520,000 whereas the payment made by the Ocean View Development Company amounted only to Rs.9,000,000. This matter was discussed at the meeting of the Committee on Public Enterprises held on 23 November 2012 and the Committee directed that disciplinary steps should be taken against the officers responsible for the irregular transaction. Nevertheless, action in compliance with the directive had not been taken even up to 30 September 2014

## 6. Systems and Controls

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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.

- (a) Contract Administration and Progress Review
- (b) Advances
- (c) Inventory Control
- (d) Accounting
- (e) Human Resources Management

