

National Housing Development Authority – 2017

The audit of consolidated financial statements of the National Housing Development Authority and its Subsidiaries for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, 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 consolidated financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s 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 Audit Opinion

My Opinion is qualified based on the matters described in paragraph 2.2 and 2.3 of this report.

2. Financial Statements

2.1 Qualified Opinion - Group

In my opinion, except for the effects of the matters described in paragraph 2.2 and 2.3 of this report, the financial statements give a true and fair view of the financial position of the National Housing Development Authority and its Subsidiaries as at 31 December 2017 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

Qualified Opinion – Authority

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 2017 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

Disclosure of Related Party Transactions

Even though the present Chairman of the Authority has been working as a Director of the National Housing Development Finance Corporation Bank, the required disclosure had not been made thereof.

2.3 Comments on Financial Statements – Authority

2.3.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard - 01**

Contrary to paragraph 48 of the above standard, the debit balance of the housing property maximum deposit account as at end of the year under review amounting to Rs.28,779,010 had been set off to the credit balance of the housing property maximum rent account amounting to Rs.19,221,684 and net amount of Rs.9,557,326 had been shown under the miscellaneous debtors.

(b) Sri Lanka Public Sector Accounting Standard - 02

- (i) In computing of the net cash inflow from the operating activities, the value of the photo copy machine purchased for Rs.340,000 during the year under review and return to the supplier, had been added to the after tax net profit.
- (ii) When computing the difference of receivable balances under the working capital changes in the net operating activities, the adjustment had been made to written-off interest payables, short term investments and written-off stock losses aggregating to Rs.327,715,739.
- (iii) The purchasing of furniture and fitting amounting to Rs.617,213 and equipment amounting to Rs.273,634 the payments had been made in the year 2018 had been included to purchasing of property, plant and equipment under the investment activities.

(c) Sri Lanka Public Sector Accounting Standard – 07

- (i) The value of the land belonging to the Hantana Holiday Resort, extent of 170.56 perches and acquired in the years 1987 and 1988 as an non-exchange transaction, had been shown in the financial statements as Rs.2,520 as at end of the year under review. However, actions had not been taken to account the fair value of the land in terms of paragraphs 27 and 47 of the standard.
- (ii) According to the paragraph 69 of the standard, the assets should be depreciated when they are available for use. Although the office buildings totalling Rs.41,398,583 that had been used in the year 2017, had not been depreciated. Hence, the deficit for the year under review had been understated by Rs.1,024,603.
- (iii) According to the paragraph 65 of the standard, the useful life of the assets should be reviewed as at end of the reporting period of each year and the changes to be made for depreciated life time of the assets. However, action had not been taken with regard to the fully depreciated assets of the Authority, but still in use, totalling Rs.301,608,223 according to the standard.

2.3.2 Accounting Policies

The following observations are made.

- (a) According to the accounting policy No.9.8 the expenditure incurred for acquisition of fixed assets, expansion and developments, had been recognized as “Capital Expenditure”. However, interest paid to the land creditors for delaying the payments had been added to the cost of the assets considering it as a capital expenditure under 9.5 of the accounting policy. Thus, inconsistencies were observed in audit between those policies.

- (b) According to the accounting policy No.5.3 the stocks should be valued at the historical cost or the net realizable value, whichever is lower. However, 3 houses in the stock of houses as at 31 December of the year under review, had been valued only on the cost base and as a result, the profit had been over computed by Rs.256,502.

2.3.3 Accounting Deficiencies

The following observations are made.

- (a) The premises 7 of the IXth floor of the central secretariat building had been rented out for Rs.21,850 per month by the Authority, since the year 2000, to the Sri Lanka Housing Development Finance Corporation Bank without entering into a written agreement. The rental had been revised in the years 2008 and 2016 as Rs.31,000 and Rs.48,960 respectively. According to those amendments, the rent in arrears up to 31 December 2017 amounted to Rs.1,751,290. However, only a sum of Rs.556,520 had been accounted.
- (b) The interest income amounting to Rs.946,406 related to 12 Treasury Bills purchased in the year 2017, had not been accounted.
- (c) The lands belonging to the Authority had not been separately accounted and according to Note to the lands and buildings, the value of the lands amounted to Rs.55,319,710. However, 32 plots of lands where the permanent office buildings and rented building were located the remaining lands belonged to the housing schemes and 437.7 hectares of lands belonged to the Authority had not been valued and accounted.
- (d) Remaining balance, out of the fund received from the Ministry of Lives stock amounting to Rs.13,315,764, had been accounted as other grants since the year 2012.
- (e) The total outstanding balances of Rs.1,225,710,978 receivable to the Authority from the housing loans given to the outside parties and property loans given to the staff, had been shown in the financial statements as development assets under non-current assets.
- (f) Nine housing units held for sale and valued at Rs.7,083,047 had been rented out since over 5 years. However, without being made any disclosure in this regard, that value had been included to the stock held as at 31 December 2017.
- (g) Without being ascertained the net realizable value of 08 shops in Park Road, the cost of that shops amounting to Rs.6,100,000 had been accounted for as closing stock.
- (h) According to the statement of financial performance, the Minority Interest from the deficit for the year amounted to minus Rs.1,256,096. However, that value had been accounted for as Rs.50,818,181 in the statement of changes in net assets and as a result, the liabilities shown in the statement of financial position had been overstated by Rs.52,074,277.

2.3.4 Un reconciled Control Accounts

A difference of Rs.172,213 was observed between balances shown in 06 current accounts belonged to the District Offices and the current account maintained in the Head Office. However, the adjustments had not been made after being identified the reasons for the difference.

2.3.5 Un explained Differences

The following observations are made.

- (a) Even though the total outstanding balances of the loans obtained by the Authority from 06 licensed banks under the Diripiyasa Loan Scheme as at end of the year under review amounted to Rs.9,418,616, corresponding balances of those loans as per the confirmation of balances made by the respective banks totalling Rs.19,979,190. Thus, a difference of Rs.10,560,574 was observed between the value shown in the financial statements and the value of the confirmation of balances.
- (b) According to the financial statements of the Authority the receivable balance from the Urban Development Authority as at end of the year under review amounted to Rs.51,843,286. However, according to the financial statements of the Urban Development Authority, the receivable balance from the National Housing Development Authority amounted to Rs.39,837,299.
- (c) The outstanding loan balances as at end of the year under review belonging to the loans obtained by the Authority from 2 banks under the Upahara Loan scheme amounted to Rs.3,228,445,075. However, according to the confirmations given by respective banks, that balance amounted to Rs.3,228,401,929. Thus, a difference of Rs.43,146 was observed between the value shown in the financial statements and the values that had been confirmed.

2.3.6 Lack of Evidence for Audit

The evidence shown against the following accounting items had not been made available for audit.

<u>Accounting Item</u>	<u>Value</u> (Rs.)	<u>Evidence not made available</u>
Institutional Loans	265,182,074	Confirmation of balances
Expenditure incurred from other grants	131,911,802	Details of expenditure
The grants received from other institutes before the year 2010	572,238,013	Detailed schedules
Other grants	637,325,252	Detailed schedules and related documents

2.4 Accounts Receivables and Payables

The following observations are made.

- (a) According to the financial statements, the total of the loan balances receivable (before provision for doubtful debts) as at end of the year under review amounted Rs.4,203,867,692. Out of those loans, the outstanding loan balances for over 5 years totalling Rs.2,132,040,580 and it had represented 51 per cent of the total loan value.
- (b) Out of the advances given by the Authority for various purpose to the internal and external persons, a sum of Rs.211,300,905 had been carried forward for over 2 years and actions had not been taken to recover the outstanding balance up to end of the year under review.
- (c) Actions had not been taken to recover a outstanding balance of Rs.448,138 receivable to the Authority in respect of a land of 685 perches in extent that granted by the Authority in the year 1998 from the Athnawala Estate to a private social welfare organization for a housing project consisting of 60 houses.
- (d) A sum of Rs.72,214,458 should have been receivable to the Authority for employment of servants and officers of the Authority on the duties of other public institutions. Out of that, a sum of Rs.70,963,064 was existed as receivable for over 05 years.
- (e) Without having obligation to repay a sum of Rs.47,462,688 had been obtained by the Treasury in the year 2010 and credited to the Consolidated Fund. Although that position had been informed by the Treasury, that amount had been shown in the financial statements as the receivable assets for over 5 years.
- (f) A tax liability amounting to Rs.21,516,177 had to paid to the Department of Inland Revenue as tax in arrears and penalties on behalf of the National Institute of Mechineries and out of that, a sum of Rs.15,329,497 had been paid by the Authority up to end of the year under review. Although a sum of Rs.6,186,680 had been accounted as the tax payable, action had not been taken to make settlement of that amount.
- (g) The loan installments amounting to Rs.502,242,329 and interest in arrears amounting to Rs.207,757,171, which should be paid on the loans obtained from the state and private institutions, had been not settled for over 5 years.
- (h) Actions had not been taken to settled the loans payable to the Ministry of Rehabilitation and the Ministry of Fisheries amounting to Rs.130,950,399 and Rs.89,141,174 respectively up to 31 December 2017 and those loans were remained as unsettled more than 5 years.
- (i) A loan amounting to Rs.520,369 which had been given to the Ocean view Development Company to purchase a plot of land existed as unrecovered for over 10 years. However, actions had not been taken to recover the loan up to end of the year under review.

- (j) One thousand four hundred and sixty eight loan files related to the loans worth of Rs.5,973,119, given by the Jaffna District Office under the Lending Cooperative Societies' housing loan scheme (TCCS), had been misplaced. Hence, the Authority had not been taken actions to either recover the loans or written off the loans and accounted for as debtors.
- (k) The payable balance as at end of the year under review amounted to Rs.1,768,665,276 and out of that the balance for over 5 years amounted to Rs.1,111,328,021. It was represented 63 per cent of the total creditors.
- (l) Five motor vehicles valued at Rs.11,275,000 received under the Japan donation programme, had been given to the state engineering corporation from the year 1991 without being signed a formal agreement. Although 10 per cent of the income generated from the motor vehicles should be receivable to the Authority, that rent income had not been received by the Authority since December 2014.
- (m) A sum of Rs.5,020,000 to be receivable as end of the year under review from the sale of lands under the Janaudana land sales programme conducted by the Kurunegala District officer, for the sale of 82 land plots in 13 lands.
- (n) The loans had been given to 526 families in the Kurunegala District during the years 1989-1994 to purchase sola electricity panels, out of those loans, the outstanding balance as at 31 December 2017 amounted Rs.4,081,632. Although a sum of Rs.2,950 had been received, further sum of Rs.4,078,682 had not been recovered. However, the Authority had not taken formal action to recover the debtors.
- (o) Even though a sum of Rs.8,686,000 had been paid by the Authority in the year 2012 to the Urban Development Authority for acquisition of a land called Rathnapura – Galkaduwwatha, the acquisition activities had been abandoned by the Authority later in the year 2014. However, actions had not been taken to recover the payment made to the Urban Development Authority up to the year under review and that amount had been accounted for as Development assets.
- (p) The receivable balance amounting to Rs.331,276 for 16 housing units which had been constructed under the Glaha Housing scheme, had not been received up to end of the year under review. An age analysis in respect of that receivable balance had not been furnished to audit.
- (q) According to the financial statements, a debt capital balance of Rs.20,666,249,152 and debtor balance of Rs.3,150,676,166 were existed in the Housing loan programme as at end of the year. Where as balances of Rs.19,340,239,714 and Rs.3,417,586,436 were existed as at end of the preceding year. Out of those debtor balances, a sum of Rs.1,759,607,179 was remained as receivable for over 5 years.

- (r) Even though the cost of debt collection commission for the year under review amounting to Rs.151,713,477, fifty six per cent of the total debts was older than over 5 years. Hence, it was observed in audit that the debt collection activities were in weakness level.
- (s) According to the progress report of the collection of debts, out of the total debtors of 342,668 the performing debtors were about 37 per cent.

2.5 Non- Compliance with Laws, Rules, Regulations and Management Decisions

The following of non – compliances were observed.

Reference to Laws, rules and Regulations	Non – compliance
(a) Section 11(b) of the Finance Act, No.38 of 1971	Concurrence of the Minister of Finance had not been obtained in connection with the investments made in short terms and long terms investments amounting to Rs.3,060,338,089.
(b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Financial Regulation 396	Actions had not been taken according to this financial regulation in respect of 245 cheques that had exceeded 06 months from the date of issue but not presented for payment amounting to Rs.7,190,654 relating to 04 District offices.
(c) Public Finance Circular No.03/2015 dated 14 July 2015	The advances should be paid only to the staff grade officers for the fulfillment of the special activities. However, contrary to that requirement, the advances amounting to Rs.696,905 and Rs.432,900 had been paid to non-staff grade offices, in 30 and 37 instraces, by the Head office and the Kurunegala District office respectively.
(d) Public Finance Circular No.03/2015 dated 14 July 2015	According to the Circular, sums of Rs.75,000 and Rs.150,000 had been paid, for external activities of purchasing of fuel and repairing of motor vehicles respectively, as the advances.
(e) Public Administration Circular No.04/2017 dated 28 February 2017	
(i) Paragraph 03	Contrary to above Circular, the graduates had been recruited as Trainees and those graduates had worked as Trainees up to 31 December 2017, from the year 2015.

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| (ii) Paragraph 04 | The Trainees had been recruited exceeding the limit prescribed in the circular i.e the limit of 25 Trainees or 10 per cent of the total cadre. |
| (iii) Paragraph 06 and 08 | The maximum training period of the Trainees had been extended over 6 months. |
| (iv) Paragraph 07 | Up to Rs.1,000 per day had been paid as daily allowances, instead of being paid approved amount of Rs.500. |
| (f) Department of Management and Audit Circular No.DMA/2009(2) dated 01 September 2009 and Treasury Circular No.IAI/2002/02 dated 28 November 2002 | The Assets Register and the Computer Accessories Register of the Authority had not been updated. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Group and the Authority as at 31 December 2017 had resulted deficit of Rs.918,590,972 and Rs.915,696,741 respectively. As compared with the corresponding surplus of Rs.366,807,731 and Rs.240,302,403 respectively for the preceding year, thus indicating deteriorations in the financial result of the Group and the Authority of Rs.1,285,398,703 and Rs.1,155,999,144 respectively for the year under review. As compared with the preceding year, decrease of land sale income by Rs.823,473,191 and decrease of housing sale income by Rs.131,249,624 and increase of expenditure on public ceremonial activities and commission for collection of debts by Rs.19,136,636 and Rs.68,783,831 respectively during the year under review were mainly attributed to the deterioration in the financial result.

In analyzing the financial result for the year under review and preceding 4 years, a continuous deficit in the financial result of the Authority was observed form the years 2013 to 2014. Nevertheless, a surplus of Rs.240,302,403 was reported in the year 2016 due to the increase of land sale income. However, by taking into account of employee remuneration, tax paid to the Government and depreciation on non-current assets, the contribution of the Authority that had amounted to Rs.789,016,496 in the year 2013, had reached to Rs.900,962,457 by the end of the year under review.

3.2 Analytical Financial Review

The following observations are made.

- (a) Compared to the preceding year, the incentive expenditure of the year under review had been increased by Rs.62,905,185 or 270 per cent due to the increase of the cadre and debt recoveries.

- (b) The current ratio and of the quick ratio of the Authority as at end of the year under review were 1.66:1 and 1.63:1 respectively whereas those ratios in the preceding year were 1.64:1 and 1.6:1.
- (c) The expenditure of information and advertisements, repairing of condominium properties, buses and motor vehicles rentals had been increased from 66 per cent to 513 per cent during the year under review.

3.3 Legal actions instituted against the Authority or by the Authority

Based on the reasons such as transfer of lands and houses, construction of houses, payment of gratuity and the issues with employees, 102 legal cases had been proceeded in the courts by 102 external parties against the Authority by requesting compensations amounting to Rs.257,180,848. As well, the Authority also had taken legal actions against 882 external parties claiming compensation of Rs.62,522,132 on the reasons of non- payment of rent in arrears, acquisition of lands and to recover of loans.

4. Operational Review

4.1 Performance

4.1.1 Planning

The vision of the Authority is to provide a protective houses to every family in Sri Lanka. In order to achieve the mission of providing of facilities for the above purpose, the Authority had prepared a corporate plan, by considering strength, weakness, opportunities and trends, representing the year under review. As well, an action plan also had been prepared by the Authority and actions had been taken to achieve the expected targets. However, updated organization structure, approved cadre, budget, annual procurement plan and internal audit plan had not been included to that action plan.

4.1.2 Activities and Reviews

The following observations are made with regard to the achieved progress according to the Action Plan.

- (a) Even though it had been planned to complete 500 housing units and 35 housing units under the Sevana Village Programme and the low income technological programme respectively as at end of the year 2017, none of the housing unit had been completed as at end of the year under review due to the issues connected with water. Although 89 houses had been completed up to residential condition, as at May 2018 the beneficiaries had not occupied in the houses.
- (b) Even though it had been planned to commence the construction works of 5,000 housing units and out of that 3,500 housing units scheduled to be completed during the year under review under the model village programme only 205 housing units had been completed due to unsuitability of selected lands for housing programme. The progress of that was about 6 per cent.

- (c) Even though it had been planned to complete 2,534 housing units under the Northern Province Housing Development Programme as at end of the year 2017, the completed housing units were about 695 or 27.43 per cent as at end of the year under review. 726 housing units had been totally completed up to II quarter of the year 2018 and 1,103 houses had been completed up to residential condition.
- (d) Even though it had been planned to complete 250 housing units during the year under review under the scattered housing programme under the participatory method, only 24 housing units had been completed and progress of that about 10 per cent.
- (e) Even though it had been planned to complete the works of 3,000 housing units during the year under review under the loan programme of Soduru Piyasa, only one housing unit had been completed as at end of the year.
- (f) It had been planned to complete 869 housing units as at end of the year 2017 under the Sevana Villages Programme that implemented under the continuous programme. However, the beneficiaries had discourage to reside in the houses due to the issues associated with water and therefore, the contribution of the beneficiaries was at low level III housing units had been completed as at end of the year under review and its progress was 13 per cent.
- (g) According to the Action Plan of the year 2017 it had planned to complete 28 housing units in Yakkala Siyane Uyana during the year under review under the private participatory housing programme and that had been implemented under rhe continuous programmes. However, none of the housing units had been completed during the year under review.
- (h) It had been planned to commence the construction works of 3,611 housing units under 5 projects that scheduled to be implement under middle income housing programme, during the year 2017. However, the construction works had been started in 860 housing unites, under the Mount Klifferd Housing project during the year under review.
- (i) Construction of housing units had been scheduled to be commenced during the year under review under the Sampath Sevana Scattered Udakala Villages Programme and the Samata Sevana Scattered Udakala Villages Programme, had been exceeded by 7,182 and 10,943 housing units respectively. As a result, it had been failed to reach to the expected targets and it was observed in audit that in some instances even after being completed the constructions works, the beneficiaries had not resided in the houses. Further, the entire allocation and more provisions of the allocation had been utilized to the commencing stages of the housing units were further observed in audit.
- (j) A sum of Rs.250,000,000 had been allocated in the year 2017 for reparing of 24 old housing schemes and the reparing activities scheduled to be completed during the year under review. However, reparing activities in 18 housing schemes had been commenced up to 31 December 2017 and a sum of Rs.170,000,000 had been incurred thereon.

- (k) Even though housing units construction had been increased, the occupants of houses had not been increased simultaneously due to not consideration of water and sanitary facilities, before selecting the lands for commencement of housing schemes, and financial strength of the beneficiaries.
- (l) According to the Upahara Loan agreements, the provisions had been made to recover the loan installments either from the salary of the borrower or the surety. However, the outstanding loan balance as at end of the year under review amounted Rs.292,679,982. In order to implement that Upahara loan programme, the Authority had obtained loans from the state banks. Hence, the Authority had to pay the loan installments and interest on due dates to the banks, whatsoever the money receiving from the debtors. Thus, it was observed in audit that the Authority had to utilize the funds available for normal activities of the Authority in that regard.

4.2 Management Activities

The following observations are made.

(a) Sevana Media Unit

- (i) The Sevana Media unit was established 30 years ago with a view to generate the income through the publishing of advertisements of the affiliated institutes to the Ministry. In addition to the general activities of the National Housing Development Authority, that special Project had been operated and the debtors amounting to Rs.23,222,353, the creditors amounting to Rs.4,574,501 and the income of Rs.13,188,566 had been shown in the financial statements as at end of the year under review. However, the Authority had not taken actions to compile a set of accounts to financial statements or to made a disclosure in the financial statements with a view to inform the interested parties.
- (ii) A systematic procedure had not been prepared to collect charges when publishing the advertisements through that process. The copies of the receipts issued to the debtors and related information thereto had not been maintained properly. As a result, it was observed in audit that the receivables from past debtors could have not been recovered.
- (iii) Even though the payments should be made the by customers to the Sevana Media Unite within 30 days since the date of invoiced, the instances of delays to issue the invoices to the customers more than 30 days were observed in audit.
- (iv) A manual for the computer programme had not been prepared for Sevana Media Unite. Hence, when perform the activities in the computer unit, the difficulties were arisen.

- (b) Allocated houses, remaining houses and shops valued at Rs.33,952,205 had been included to the housing stock of Rs.99,071,242 as at 31 December 2017 and they were remained in the stock for over 5 years. However, the Authority had not taken actions to recover the outstanding receivables from the allocated houses and to sell the remaining houses and shops immediately.
- (c) Twenty houses in the wellangollawath housing scheme had been sold for Rs.192,942,000 during the period of the years 2012 to 2016, based on the valuation made in the year 2011 without being revalued in the selling years. The house had been sold based on the Board of Director's decision made on 17 July 2015.
- (d) The instructions given by the National Building Research Organization had not been followed to construct the building in a steeply sloping land situated at the Rediyagama – Boraluwala Adarsha Gammanaya and such instructions had not been properly informed to beneficiaries too. As a result, disastrous consequences for the buildings and foundations were occurred. Thus, it was observed in audit that maximum benefit from the financial allocations made by the Authority could not be achieved.
- (e) Even though the Veapathangha – Galapamula Hena Adarsha Gammana Village Project had been inaugurated as a loan programme, the project had to be converted into donation programme due to non-obtaining of loans by the beneficiaries and proper approval for the programme had not been obtained. Further, according to the performance reports, the housing project was comprised of 14 housing units and they scheduled to be completed in October 2017. However, only 3 houses had been completed up to end of the year under review.
- (f) Eighteen motor vehicles had been purchased on the operational lease basis in February 2017 and a sum of Rs.38,488,899 had been paid as the lease rental. However, compared to the preceding year, rental expenditure had been increased by Rs.49,124,777 or 84 per cent.

4.3 Operational Activities

A sum of Rs.120,000,000 had been invested by the Authority in its subsidiary company and according to the financial statements of the subsidiary company for the years 2015 and 2016, the profit after tax amounted to Rs.306,351,250 and Rs.126,505,328 respectively. However, dividends had not been received by the Authority since the year 2013. According to the unaudited financial statements of the subsidiary company for the year 2017 the profit after tax of the subsidiary company amounted to Rs.84,962,545.

4.4 Under utilization of Funds

The money received to the Sevana Fund from the General Treasury and other parties, including the opening balance of Rs.523,866,086 as at beginning of the year under review amounted to Rs.903,976,375. However, only a sum of Rs.70,385,977 had been utilized for the objectives of the Fund during the year 2017.

4.5 Idle and underutilized Assets

Two thousand seven hundred and thirty one motor spare parts belonging to 397 categories and the value had not been mentioned had been kept in idle since the year 2007.

4.6 Identified Losses

The payments of contributions to the Employee Provident Fund and to the Employee Trust Fund from the years 2006 to 2012 had been made based on lower salary scales, instead of being applied the relevant salary scales for the deductions. As a result, a surcharge amounting to Rs.71,926,950 had been paid and the installments paid for that period amounting to Rs.143,853,900 had also been included to said surcharge account.

4.7 Commencement of Projects in the improperly acquired lands

The Mahawa Udagama Adarsha Village had been buildup on a non-vested lands to the Authority and 07 official houses had been rented to the external parties on rental basis. The arrears rent of those houses as at 30 June 2017 amounted to Rs.1,346,105. Actions had not been taken to update the rent agreements and to maintain the houses in proper manner.

4.8 Staff Administration

The following observations are made.

- (a) The approved cadre by the Management Services Department on 4 April 2012 had been 1,376. However, the actual cadre had been 2,264 as at December of the year under review, thus approved cadre had been exceeded by 896. Even though the proposal for the recruitment of staff had been furnished to the Management Services Department since the year 2014 by the Authority the approval had not been received.
- (b) Contrary to the above recruitment procedure approved by the Management Services Department, 238 officers belonging to 28 posts had been employed in excess as at 31 December 2017.
- (c) Contrary to the provisions in Section 9.3.1(vii) of the Public Enterprises Circular No.PED/12 dated 02 June 2003, eighteen officers had been deployed in acting capacity and covering up duties over periods ranging from 3 months to one year.
- (d) The transfers of the staff had not been implemented as per the approved transfer scheme. According to audit test check, some officers have been worked in the same district office for over 17 years and some officers have not been transferred to even between internal Divisions.
- (e) Contrary to the qualifications stipulated in the approved recruitment procedure of the Authority, the recruitments had been made in the year 2017 for the post of Technical Assistant on contract and permanent basis.

- (f) Even though an Chief Internal Auditor had been deployed in the Authority, actions had not been taken to obtain the required approval for that post according to the recruitment procedure.
- (g) Without being published a public notice, an officer who worked in Semi Public organization had been recruited on contract basis for the post of Assistant General Manager (Property Management) in the year 2017. Further, without following approved recruitment procedure and conducting an interview that officer had been appointed to cover the duties of Deputy General Manager and then permanently appointed as Deputy General Manager. Based on the decision of the Board of Directors made on 24 April 2017, an adjusted allowances of Rs.22,370 had been paid per month, totalling Rs.134,220 for the period from February 2017 to July 2017 for that officer recruited on contract basis for the post of the Assistant General Manager (Property Management).
- (h) As well, without being published a public notice and without being adhered to the qualifications stipulated in the recruitment procedure and obtaining the approval of the Board of Directors, on officer had been recruited in the year 2017 for the post of the Assistant General Manager (Human Resource Management) on the contract basis.

4.9 Utilization of Motor Vehicles

The following observations are made.

- (a) Thirteen motor vehicles valued at Rs.1,940,000 had been misplaced during the Civil war period in the North and East area. However the Authority had failed to conduct an examination in this regard in order to take necessary actions.
- (b) According to the accounting policy of the Authority, the motor vehicles had been depreciated considering their useful life as 5 years. However, the ages of 64 motor vehicles which are still in used were 10 to 32 years. Hence the cost on utilization of Motor vehicles and their related costs had been increased year by year.
- (c) Four motor vehicles and 3 motor bicycles, purchased from the year 1985 to 1993, had been disposed and the newspaper advertisements had been published in the year 2016 to dispose them. Nevertheless, up to end of the year under review, those motor vehicles had not been disposed.

5. Sustainable Development

5.1 Achievement of sustainable development goals

The following observations are made.

- (a) The United Nation's sustainable Development goals "Agenda" for the year 2030 should be followed by all the Public Institutions. Accordingly, under the primary objective of shelter for all, the Housing Development Authority had identified the right to live in a house with the features such as basic facilities, environmental trendyness, sustainable and quality with sustainable security. The other objectives come under the preview of the Authority such as providing of loans to built-up houses and development, providing of technical and other facilities which are required to construction of houses and secure the ownership of the residents, have been carried out.
- (b) To implement the sustainable development galls, the interested parties for the activities of the Authority had been identified and their participation for the setting of targets had also been identified. Nevertheless, the succession level of the participation was at low level.
- (c) Even though the Authority had develop the performance indicators to evaluate the achievement of sustainable development galls, providing of facilities for that purpose and implementing of activities had not been properly conducted.
- (d) The activities that should be required to achieve the sustainable development galls, had not been incorporated to the Annual Action Plan, after being identified them.
- (e) Due to the lack of required coordination between the other institutions in order to achieve the sustainable development galls, it was observed that the planning process and pre-preparation activities were in a weak level.

6. Accounting and Good Governance

6.1 Procurement and construction process

According to Section 4.2.1 of the Government Procurement Guideline of 2006, the Authority had not prepared a master procurement plan indicating expected targets to be achieved within the minimum period of 3 years and a detailed procurement plan for the forthcoming year. Without being prepared a revised procurement plan, a cab had been purchased for Rs.6,300,000 though it was not included to the procurement plan of the year 2017.

6.2 Budgetary Control

According to the financial statements furnished by the Authority, the variances of 32 per cent to 2538 per cent were observed between the actual and budgeted income and expenditure. Thus it was observed that the budget had not been made use of as an effective instrument of financial control.

6.3 Tabling of Annual Reports

Reports for the years 2015 and 2016 had not been tabled in parliament even up to 31 May 2018.

6.4 Unresolved Audit Paragraphs

The following observations are made.

- (a) In selling the Liberty Plaza Circuit Bungalow to the Ocean View Company, the valuation had been obtained only from the valuer of the Authority without being obtained the valuation from the Government valuer. Even though the Government valuation for this property amounted to Rs.11,520,000, the sales value amounted to Rs.9,000,000. The Committee on Public Enterprises at its meeting held on 23 November 2012 had drawn their attention in this regard.

- (b) According to the decision of the Cabinet of Ministers No.99/1165/21/122 dated 11 September 1999, the current value of the property should be applied when legalizing the unauthorized occupants. However, without being adhered to that decision and based on the decisions made by the Board of Directors and instructions of the internal circulars of the Authority, houses, lands and shopping complexes belonged to the Authority had been transferred to the unauthorized occupants, without applying the current valuation. Details are as follows.
 - (i) The Wauniyagama shopping complex building, owned by the National Housing Development Authority, had been transferred to a Unauthorized occupant for Rs.257,500 based on the valuation of the year 1998.

 - (ii) Three land plots belonged to the Gampha Vewalduwa housing scheme had been transferred in the year 2011 based on the valuation of the year 2000 amounting to Rs.2,227,501 (including administration charges). The estimated value of those land plots in the year 2011 amounted to Rs.6,000,000.

 - (iii) A house in the Manning Town Housing Scheme, valued at Rs.13,800,000 in the year 2014 had been transferred based on the value of the year 1998 amounting to Rs.3,700,000.

- (c) Contrary to section 9 of the National Housing Development Authority Act No.17 of 1979, two houses in the Maththegoda housing scheme and Manning Town Housing Scheme had been given to one person. However, that issue had not been resolved up to end of the year under review.
- (d) Twenty seven thousand hundred and eighty four square feet in the ground floor and I, II, III, IV, V floors of the National Housing Development Authority building had been rented out to the Sri Lanka Housing Development and Finance Corporation Bank without being obtained a valuation from the Government Valuer and signed an agreement. As a result, the Authority had incurred losses and faced to the problems. Further, without being complied with section 8.1 of the Act and without having the valuation of the Government Valuer, 3 and 4 premises in the IX floor of the said building had been rented out to that Bank in the year 2015. Although the estimated rent of the valuer of the Authority and the price committed for those premises amounted to Rs.80,700 the agreements had signed for Rs.54,500 only on the consent expressed by two institutions.
- (e) Proper actions had not been taken with regard to recruitment of Deputy General Manager (Human Resources and Administration) and payment of salary increments. contrary to the recruitment procedure of the Authority in the year 2011.
- (f) A sum of Rs.172,770,166 had been shown in the financial statements, as payment of compensations to 72 land plots acquired under Section 38 (b) of the Land Acquisition Act. Although it had included the balances older than 38 years, actions had not been taken to settle the payment of compensations and interest thereon up to end of the year under review.
- (g) Without being obtained the approval for the housing construction plans from the relevant Local Government Authorities, the houses had been constructed and as the result, the compliance certificates had not been received. Due to that reason, it had been failed established Management Corporations after being transferred the ownership of the houses to the occupants. Hence, the maintenance and repairing activities of Condominium properties and the housing schemes had been vested the with the Authority. As a result, the Authority had to incurred a total amount of Rs.230,482,683 for the maintenance and repairing activities of those housing schemes for the year under review.
- (h) Even though a sum of Rs.20,000,000 had been incurred to construction of the Mahiyawa Housing Scheme, comprises of 32 houses, in a land owned by the Kandy Municipal Council, that amount had not been recovered from the Kandy Municipal Council up to end of the year under review.

7. System and Controls

Deficiencies in system and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

- | | |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Control of Advances | (i) The Advance Register had not been maintained properly and advances had been paid without obtaining the estimates. |
| | (ii) Delays in settlement of advances and the advances had been given again to the officers those who had not been settled the previously granted advances. |
| (b) Assets Management | (i) Delays in appointment of members to the Board of survey and proper actions had not been taken relating to excess and shortages revealed in the survey. |
| | (ii) Land and official residences had not been properly maintained and relinquish of the usage. |
| (c) Operational Control | Actions had not been taken to amend the rentals based on the prevailing economic values. |
| (d) Cash and Bank | Delays in banking of receipts and bank reconciliation statements had not been prepared in updated. |