

National Housing Development Authority - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Housing Development Authority (“Authority”) and its Subsidiary for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in equity 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 the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported 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 2022, 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 Scope of Audit (Auditor's Responsibility on the Audit of the Financial Statements)

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 the 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

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
a) Sri Lanka Public Sector Accounting Standards 01- Presentation of Financial Statements, As set out in paragraph 29(a) and the appendix, reliable information should be presented free from material error and bias according to the qualitative characteristics of financial reporting, Even though, Rs. 1.33 million to be recovered in relation to the frauds committed in the collection of housing	It was accounted for as lost amount receivable in the accounts as the legal proceedings related to the finance had not been completed. Kalutara and other 3 districts will be accounted for in 2023.	According to the standard, reliable information should be disclosed in the financial statements and a formal information system should be promptly established so that debt collections can be made to minimize fraud.

loans of the head office, Kandy and Nuwara Eliya district offices of the authority had been accounted for under other receivables in the financial statements, the details had not been disclosed. Moreover, according to the information revealed to the audit, Rs. 5.05 million fraud in Kalutara district and frauds committed in recovery of debt in 3 other districts were not disclosed in the financial statements.

Housing indebted balance as on 31 December 2022 is Rs. 10,496.5 million and the number of borrowers was about 350,000. These loans are housing loans to be recovered in installments for a long period of 5, 10, 15 years etc. However, the audit could not obtain accurate information regarding loans due to the absence of an information system to formally record information related to borrowings and recoveries. Further, the accuracy of the debt balances could not be verified during the audit due to alteration of data in the existing system and reporting financial frauds continuously from the district offices.

b) Sri Lanka Public Sector Accounting Standard No. 7 - Property, Plant and Equipment

- i). As per the paragraph 65 of the standard, the residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in terms of SLPSAS 3, —Accounting Policies, Changes in Accounting Estimates and Errors. However, no such review had been done regarding property, plant and equipment worth of Rs. 28.82 million
- It is mentioned in paragraph 92 of the Standard 01 that different classes of property, plant and equipment can be carried at cost or revalued amounts. Costs are accounted for accordingly.
- Depreciation of property, plant and equipment should be dealt with in accordance with paragraph 65 of the Standard 7.

included in the financial statements as at 31 December 2022. Further, fixed assets cost of Rs. 218.85 million had been using continuously even though that they had been fully depreciated. The effective life and fair value of those assets had not been reassessed and accounted for and adjusted as per Public Sector Accounting Standards No. 7 and 3 above.

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| ii) | Even though the value of land should be accounted for at fair value as per paragraphs 27 and 47 of the Standard, the value of the land of 17.43 perches belonging to the Hantana Resort which had been acquired in year 1987 and 1988, was mentioned as Rs.2,520 in the financial statements at the end of the year under review even though over 30 years elapsed since the acquisition. | A written request was made to the Chief Valuer on 17.02.2023 to get the assessed value. Measures will be taken to bring to accounts immediately upon receiving the assessment. | Arrangements should be made to account for the fair value of the land. |
| c) | Sri Lanka Public Sector Accounting Standard No. 8 – Provisions, Contingent Liabilities and Contingent Assets, Contingent Liabilities should be identified and 60 percent or 90 percent of them should be provisioned as per paragraph 47.
However, as mentioned in the Authority's accounting policies 8.1, only ten percent of the amount of Rs.2118.2 million identified as Contingent Compensation in relation to 26 cases filed in courts by external parties against the authority had been provided as Contingent Liabilities in the financial statements. | The amount of contingent liabilities will be gradually increased according to its nature from the year 2023. | Adequate provision should be made for contingent liabilities in accordance with the standard. |
| d) | Sri Lanka Public Sector Accounting Standard No. 10 - Revenue from Exchange Transactions | | |
| i) | According to the paragraph 16 of the standard, in case the fair value of the consideration may be less than the | Equivalent installments are collected in terms of the agreements made with the | Housing loan installments and interest income should be |

nominal amount of cash received or owners of houses and land. identified as per the receivable when the inflow of cash Accordingly, revenue had provisions of the Revenue or cash equivalents arising been recognized and standard. from value Exchange Transactions is accounted for. The considered, the fair value of the contractual interest income had been recognized as a discounting all future receipts using an revenue as per the paragraph 34 of the standard 10. imputed rate of interest. Further, the difference between the fair value and nominal amount of the consideration should be identified as interest revenue as per the paragraph 33 and 34 of the standard. However, the Authority had not acted accordingly regarding the premiums and interest collected for the houses and lands given by the authority on long-term lease basis under subsidized interest rates subject to collect by installments.

- ii) In terms of the paragraph 87 B of the standard, even though appropriate adjustments should be made to the financial statements of the Authority and the subsidiary companies to ensure that the Group's accounts comply with accounting standards, despite that Oceanview Development Pvt. Company, the subsidiary company had followed the Sri Lanka Accounting Standards (LKAS), when preparing the consolidated financial statements, they had been prepared without uniformly adjusting the accounting practices related to it.
- e) Sri Lanka Public Sector Accounting Standard No. 11- Revenue from Non-Exchange Transactions, Even though Rs. 346.19 million of government grants received by the authority during the year under review shall be recognized as revenue, it was given under Reserves without recognizing so contrary to the provisions in paragraph 44.
- There has been no material impact in terms of the use of accounting standards in the preparation of the consolidated financial statements.
- According to the standard, the relevant adjustments should be made before preparing the consolidated financial statements.
- The amount given by the treasury for loans is considered as capital receipts and accounted in the reserve account.
- If financial statements are prepared in accordance with Public Sector Accounting Standards, government grants should be recognized in accordance with the standard.

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| f) | Sri Lanka Public Sector Accounting Standard No. 12 - Leases, According to paragraph 59, the value of the flats provided by the authority on rental basis is Rs. 81.62 million, and it had not been recognized as finance lease even though the lessors shall disclose about finance leases in their financial statements. | The flats had been sold on installment basis and after the payment for the flats; the ownership goes to the respective flat owners. | The assets sold should be properly identified when granting finance leases according to the standard. |
| g) | Sri Lanka Public Sector Accounting Standard No. 13 - Investment Properties, According to the paragraph 7, even though a land or a building – or part of a building – or both held to earn rentals or for capital appreciation, or both, shall be considered as Investment property, houses of Rs. 1024.23 million belong to the authority and provided on rental/lease basis are shown under property, plant and equipment. Similarly, 5 houses and shops costing Rs.3.81 million expected to be provided on rent/lease basis were accounted for as inventory without accounting for as investment property. Furthermore, the value of 1809 houses and shops that had been provided on rent/lease basis by the authority and the value of 37 shops that had been identified to be provided on rent/lease basis had not been accounted for. | It has not been decided whether the houses and shops in the inventory under current assets are to be sold or on rent basis. Those activities are done based on top management decisions. | Investment properties should be identified in accordance with the standard. |
| h) | Sri Lanka Public Sector Accounting Standard No. 14 - Related Party Disclosures; the authority had not disclosed the quantitative information need to be disclosed about the related parties according to paragraph 16. | Further disclosure will be made in the preparation of final accounts for the year 2023. | The necessary disclosures about related parties and transactions should be made in the financial statements in accordance with the standard. |
| i) | Sri Lanka Public Sector Accounting Standard No. 17 - Segment Reporting, According to paragraph 9, even though the separable activities of the entity should be identified to report the financial information separately in order to evaluate the past performance and | In the financial statement, debtors in the house and land sale notes No. 30 and loan capital notes No. 5-16 are shown under interest notes No. 21, 32 schedules. | The effectiveness of segments can be improved by identifying and evaluating performance of the distinguishable segments separately. |

make decisions about the allocation of future resources in the fulfillment of its objectives, Segments such as home sales, land sales and leases, home loans, implementation of housing projects, client projects which can be distinguished by the authority had not been distinguished and evaluated.

- j) According to the Authority's Accounting Policy Note No. 13, an amount equal to the market value of the land and the initial cost should be recognized and accounted for as reserves in the acquisition of government lands for the purpose of building houses without payment. Even though the value should have been shown in the accounts since the year 2013 as stated in Accounting Policy No. 13.3, it had not been done so.
- Lands acquired after 2013 had not been identified.
- Measures should be taken in adherence to identified/selected accounting policies.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The value of 8,286 land parcels of 473.15 hectares owned by the authority and the extent of land where the offices and buildings of the authority with the cost of Rs. 436.59 million as at 31 December 2022 given on rental basis had not been identified correctly, and the value of those lands had not been assessed and accounted.	Land and buildings were not separately assessed and accounted for. Separate valuation and bringing to accounts separately has been started.	The extent of land owned by the authority should be identified and their fair value should be accounted for.
(b) Even though the land sales value in the year under review was Rs.19.86 million according to the financial statements of the Colombo district office, it was Rs.13.03 million according to the financial statements of the authority. Thus, even though a difference of Rs.6.83 million was observed in the land sale value, the reasons were not disclosed.	The understatement related to the Colombo District Office will be corrected in 2023.	Financial statements should be prepared accurately and under adequate supervision.

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| <p>(c) Even though the doubtful debts allocation for the year is Rs. 368.56 million as per the detailed schedule submitted for audit, the profit for the year under review was understated by Rs. 2.26 million by stating it as Rs. 370.82 million in the financial performance statement.</p> | <p>This will be corrected in the financial statements 2023.</p> | <p>The figures mentioned in the financial statements should be agreed with the figures mentioned in the schedules.</p> |
| <p>(d) Even though the pre-tax loss as mentioned in the Statement of Cash Flow is Rs. 1,287.41 million, The correct loss before tax would be Rs. 1,196.26 million according to the statement of comprehensive income. Accordingly, the net cash flow generated from operations had been overstated by Rs. 91.15 million. Further, Rs. 370.82 million and Rs. 53.84 million of allocations for doubtful debts and gratuity which had to be adjusted in the calculation of profit / loss generated from operations under non-monetary changes had not been adjusted properly. As a result, the net cash flow generated from operating activities had been overstated by Rs. 424.66 million. Similarly, even though the grant receipts in the year under review was Rs. 1,576.52 million according to the details submitted to the audit, the grant receipts under financial activities were Rs. 1,678.29 million. Therefore, net cash flow from financing activities had been overstated by Rs. 101.77 million.</p> | <p>The statement of cash flows had been correctly prepared and resubmitted.</p> | <p>The cash flows included in the statement of cash flows should be consistent with the financial information in the statement of financial position and statement of financial performance.</p> |

1.5.4 Un-reconciled Control Accounts

Item	Value as per Financial Statements Rs. million	Value As per corresponding Report Rs. million	Difference Rs. million	Comments of the Management	Recommendation
Receivable from the Urban Development Authority	104.35	-	104.35	A committee has been appointed to settle the balance and reach an agreement with the Urban Development Authority.	The balance should be settled promptly.
Payable to Urban Development Authority	52.51	41.83	10.68	A committee has been appointed to settle the balance and reach an agreement with the Urban Development Authority.	The balance should be settled promptly.

1.5.5 Documentary Evidences not made available for Audit

Item	Amount (Rs. million)	Evidence not provided	Comments of the Management	Recommendation
CHP	13.54	Detailed Schedules	It is a balance from the time when it was a department.	Management is responsible for the existence, accuracy, completeness, etc. of all assets and liabilities included in the financial statements.
Tender Deposits	5.11	Age Analysis	Schedules submitted.	Age analysis should be presented to determine the classification and presentation on presence of balances.

1.6. Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Even though 33 years and 30 years had passed as at 31 December 2022, Rs. 291.9 million out of the loans given under the ten lakh housing programme implemented in 1984-1989 and Rs. 192.5 million out of the loans given under the 15 lakh housing programme implemented in the years 1990 to 1992 were unable to recover. Failure to carry out a proper inspection and take appropriate measures to recover the loans had directly affected this situation.	Deputy General Managers/Assistant General Managers in charge of district offices will visit the district offices and take necessary measures to increase the collection.	Specific measures should be taken and monitored to recover old loan balances.
(b) A balance of Rs. 6.32 million receivable to the Authority by employing the officers of the Security Service of the Authority to provide security for the exhibition booths of other institutions during Gam Udawa programmes had been shown under sun dry debtors. Information regarding the institutions from which Rs. 2.99 million is receivable had not been submitted to the audit, and the balance amount of Rs. 3.3 million also remained uncollectable from the relevant institutions. The reason for this was that the authority did not take formal action regarding the recovery of the balance receivable.	As there are years old balances are available in the amount of Rs. 5.83 million receivable for providing security services during the time of Gam Udawa, further action will be taken in this regard.	Necessary measures should be taken to recover the unrecoverable balances.
(c) The balance amount receivable from the National Equipment and Machinery Organization (NEMO) is Rs. 230.8 million as at 31 December 2022, and there was a balance of Rs. 44.86 million prevailing from 15 years ago. The balances were not	Even though various measures had been followed for recovery, it is unable to recover the amount receivable to the financial crisis in these institutions.	Appropriate and adequate action should be taken to recover the balance receivable.

recoverable and the balance confirmations were not submitted for audit. The situation was caused by non-agreement regarding transactions with related parties.

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| (d) | Even though there was no any written consent from the treasury stating that total amount of Rs. 61.47 million spent in year 2018, 2019 for the projects of Grama Shakti, Viru Sumithuro, Purity and Drinking Water and Jana Sevana implemented by the Hambantota District Office to be provided from the treasury, it had been shown in the financial statements as receivable from the Treasury. | As this project had been implemented with a view to receive funds from the treasury, it was accounted for as a receivable from the treasury. | projects should be initiated after making provision for the projects. |
| (e) | The outstanding house rental income is Rs. 216.76 million as at 31 December 2022, and Rs. 192.59 million or 88 percent out of it was due for more than 5 years. The debit balance of the head office is Rs. 25.05 million in this context, and the balance due from 3 to 5 years was Rs. 5.51 million. | Various measures had been followed for recovery. | Adequate and efficient measures should be taken to recover arrears of rent promptly. |
| (f) | There was a balance of Rs. 21.82 million receivable under the Sevana Media Unit as at 31 December 2022, and even though Rs. 10.5 million out of it is prevailing for more than 10 years, the amount could not be recovered. This situation had been caused by taking no action to recover the due within the years that transactions taken place. | The relevant activities are being carried out continuously to recover from the institutions from which receivable. | Necessary measures should be taken to recover the outstanding balance immediately. |

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
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(a) There was a Rs.13.31 million payable to the Department of Livestock out of the Rs.1, 554.3	The balance of Rs. 13.31 million received for Galha housing project of the	Arrangements should be made promptly to settle the outstanding

million stated as miscellaneous creditor balance by the end of the year under review, and no measures had been taken to make payment or to adjust it to the revenue even though 13 years has passed. No measures had been taken to settle the creditor balance of Rs.75.51 million retained in the Kandy estate housing account during the year also.

Department of Livestock was saved in the account on the basis of future requirement may be arisen, and the amount recovered for the loan given is included in the Estate Housing Account.

balances that have been pending for a long time.

(b) Even though Rs. 208.56 million mentioned as retention payable in financial statements comprised with a total deposit of Rs. 1.49 million in 05 district offices within the period from 3 to 31 years and a total of Rs. 175.32 million within the period from 1 to 2 years, the amount had not been taken as revenue as per Financial Regulations. This situation was caused by not completing the project works on time.

Contract withholdings are cash. Measures will be taken to credit to the 2023 income in consultation with the engineering department.

Arrangements should be made promptly to settle the long term balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
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(a) Section 3 (1) of Part I of the National Housing Development Authority Act No. 17 of 1979	6 board members are appointed by the minister to the authority, and one member shall be a representative of the Ministry of Finance. Meetings of the Board of Directors had been held without representation of the Ministry of Finance from October 2022 to August 2023 and decisions had been taken	A treasury representative had been appointed on 28 August 2023.	The provisions of the Act should be followed.

regarding the transfer of land, recruitment of officials, and there was a problematic situation regarding the formality of these decisions.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulations 135

Even though the transfer of financial authorities should be revised once in a certain period, transfer of financial authorities had not been revised by the authority after the year 2016.

The report prepared for revising the transfer of financial authorities has been forwarded to the Board of Directors for approval.

Financial Regulations should be followed.

Financial Regulations 369

No measures had been taken with reference regulations regarding the cheques issued from the accounts of the authority with the total value of Rs. 2.062 million of which not presented for payment and 06 months had been elapsed, and 2 cheques totaling Rs.77,666 had not been cleared even though 28 years passed.

Arrangements will be made to clear.

Financial Regulations should be followed.

(c) Section (ix) of paragraph Guidelines 3.4 in Public Enterprise Circular No. 01/2021 dated 16 November 2021

An acting appointment should be made only as a temporary remedy pending a regular appointment, and the regular appointment should be made without delay if the post requires the services of a full-time

According to 3/2022, discharging the duties of the vacant posts had to be fulfilled on the basis of acting, discharge of duties and coverage of duties due to the delay in filling the vacancies formally. Arrangements

Qualified external or internal officers should be recruited immediately in a formal manner.

- officer. Duties should be distributed among other officers if the services of a full-time officer are not required. However, it was observed that acting appointments have been taking place for a long period of time from 01 to 03 years for 19 positions.
- (d) National Budget Circular No. 3/2022 dated 26 April 2022. Section 3
- Even though it had been ordered to suspend non-essential and non-priority expenses such as events, openings, conferences held by government institutions and not to use public finance for them, Rs. 2.272 million had been spent by the National Housing Development Authority for the festive activities of the year under review contrary to the provisions of that circular.
- will be made to discuss and give formal appointments by a committee appointed at the ministry level.
- The total expenditure for events, openings, conferences is Rs. 2.17 million.
- Measures should be taken regarding officers who approved and recommended the expenses incurred in contrary to the circular instructions.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.1287 million and Rs.1,105.6 million respectively for the authority and the group and the corresponding deficit of the previous year was Rs. 842 million and Rs. 467 million respectively. Accordingly, a deterioration of Rs.445 million and Rs.638 million was observed respectively in the financial results of the authority and the group. This deterioration was mainly due to the decrease in other income of the authority by Rs.6,597 million.

2.2 Trend analysis of major income and expenditure subjects

Expenditure/Revenue	2022 Rs.	2021 Rs.	Difference Rs.	Percentage of difference %
Total Income	2,476,321,102	9,097,284,410	(6,620,963,308)	(72.78)
Income by selling Lands and houses	42,946,164	66,880,497	23,934,333	(35.78)
Other Income	2,433,374,938	9,030,403,913	6,597,028,975	(73.05)
Total Expenses	3,671,214,803	9,980,663,466	(6,309,446,662)	(63.22)
Interest expenses	79,634,585	28,202,477	51,432,108	182.3
Information and Communication Expenses	4,025,975	288,080	3,737,895	1297.5
Legal expenses	23,276,486	15,325,811	7,950,075	51.87
Profit / Loss before tax	(1,196,264,706)	(931,917,091)	(264,347,615)	(28.37)

Compared to the corresponding year, sales income from lands and houses had decreased by 35.78 percent and other income had decreased by 73 percent. Loan interest had increased by 182.3 percent compared to the previous year, and publicity and information expenses had increased by 1297.5 percent and legal expenses had increased by 51.87 percent.

2.3 Ratio analysis

At the end of the year under review, the current ratio of the authority had been 2.4:1 and the current ratio had been 2.37:1 and they had been 2.3:1 and 2.25:1 respectively in the previous years.

3. Operational Review

3.1 Uneconomical Transactions

Audit Observation	Comments of the Management	Recommendation
Even though an extent of 0.146 hectares, out of an extent of 10.52 hectares land in Dambalugama belonging to the Matale district office of the Authority had been given to the Water Supply and Drainage Board and 2.21 hectares had been given to the Matale Pradeshiya Sabha and 0.7763 hectares had been given to the	The National Water Supply and Drainage Board has constructed the building on this land. The property is to be excluded from the lease base after making discussions at the institution level. The land enjoyed by the Dambulla Municipal Council is to be excluded from the lease base after receiving an assessment report.	Action should be taken promptly to lease out or transfer the land and to get income efficiently.
	Action is being taken to obtain a grant for Dambalugama Wattakkayaya land in terms	

Urban Development Authority and 0.1014 hectares had been given to the National Equipment and Machinery Organization (NEMO) for maintaining offices, any amount had not been charged.

of Section 44 under the Land Ordinance and after receiving it, it will be legally disposed of to the Urban Development Authority. Even though requests had been made to use the buildings constructed by the National Equipment and Machinery Organization (NEMO) to establish a regional depot, Dambulla Municipal Council, which is currently use it, has also requested the same from the Commissioner of Urban Development.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) There had been 6 car parks belonging to Maligawatta District Office, and Rs. 1.308 million had to be recovered from those A, B, C and D car parks from January to May 2014, and that amount had not been collected at the end of the year under review. Even though car parks had been maintained by various people from time to time from 2016 to 2020, lease agreements had been entered into for maintaining car parks. Since 2020, 05 car parks had not been used without permission. According to the assessment report, the revenue lost to the Authority due to this had been Rs. 46.5 million. Furthermore, it was observed that the arrears could not be collected due to not maintaining the files in relation to the rentals properly and securely. Although it was observed that the Authority could maintain these car parks regularly and earn high income, it was controversial that they did not do so.	It was decided to collect money from October 2022 based on the last government assessment and to get the new assessment immediately and run the car park in a formal manner.	The assets owned by the Authority should be used effectively to generate income.
(b) 04 Pradeepa Festival Halls and 06 Community Halls are being maintained under the Maligawatta District Office of the Authority, and even though accommodation facilities had been	Community halls are reserved based on common purposes and welfare needs of the persons living in flats. It is administered under the	The assets owned by the Authority should be used effectively to generate income.

provided to Police, Air Force, Army, Kidney Transplant Institutions in those Festival Halls and Community Halls from time to time since 2020, fees had not been charged and as a result, income of Rs.3.6 million had been lost. Furthermore, the Authority had to bear the water and electricity bills as written agreements had not been entered in to with those institutions. Furthermore, Modara Pradeepa Hall and 05 community Halls had remained idle from January to June 2022, and 2 Maligawatta Pradeepa Halls had not earned income from January to May of the year under review and a sum of Rs. 237,435 had been spent for maintenance activities.

- (c) Even though there had been 977 pieces of land with a total extent of 3415.76 hectares as small adjoining lands that could not be used to prepare existing houses adjacent to the housing schemes owned by the Authority, action had not been taken to utilize those lands for productive activities even by the end of the year under review.
- (d) Although vacant land plots should be used in such a way as to generate revenue for the authority there had been 4199 land plots of 335.58 hectares owned by the Authority, and they could be evaluated at the market price and they could be used for commercial purposes and generate income, the Authority had not taken action in that way.
- (e) Land plot of 3,110 in an extent of 125.18 hectares owned by the Authority are encroached by unauthorized residents, and the necessary legal procedures to regularize those lands have not been carried out.

Management Committees. An estimate of Rs.8.6 million has been prepared for the repair of Modara Pradeepa Hall. Therefore, the management has decided to provide it on lease basis.

Lands that cannot be further utilized for housing purposes in housing schemes owned by the Authority have been included in the classification of adjacent lands.

149 plots in an extent of 5.81 hectares were assessed and the report has been sent. A part of it has been sold. Action will be taken to sell the other portions of land and to assess and to sell the remaining portions and to sell them.

As soon as the plots of land owned by the National Housing Development Authority are encroached illegally, the trespasser will be removed under the supervision of the relevant District Manager. However, the number of plots of land

The assets owned by the Authority should be used effectively to generate income.

Vacant lands should be used in such a way that income is generated for the Authority.

That the regularization of illegally occupied lands should be done formally and promptly.

that have been encroached illegally in housing schemes located island wide from the past up to this moment is 1607.

The National Housing Development Authority has issued the Circular bearing No. 2014/01 based on the decision taken by the Cabinet of Ministers to charge the assessed value and to legalize the people, who have built permanent houses on those land plots and reside there. According to that Circular, the regularization activities are gradually being carried out at the moment.

(f) The Authority had to pay late interest in cases, where the payment of compensation for the acquired lands had been delayed. The late interest to be paid had been Rs. 93.50 million for the compensation amounting to Rs. 41.2 million to be paid so as at the end of the year under review. Accordingly, it was observed that the Authority had incurred losses as the Authority had to pay compensation interest more than twice the amount of compensation due to the delay in paying the compensation in land acquisition.

Due to the delay in the payment of compensation assessment for years, compensation interest of 7 percent per annum would be added. Accordingly, the interest has exceeded the compensation assessment.

Payment of compensation should be made promptly and arrangements should be made to minimize the interest payments.

(g) The foreign company called BAY SAT MBH (Pvt) LTD was given the land in extent of 01 acre and 26.5 perches located at Darley Road of Colombo 10 owned by the Authority for the construction of a mixed development project with housing and commercial complex on the Cabinet approval dated 09 November 2005 without public bidding. According to the agreement dated 23 June 2006 with that company, it was agreed to charge the

A joint venture agreement had been entered into with the German Company called BAY SAT MBH (Pvt) LTD on 23 June 2006 for the construction of a mixed development housing project on the land in extent of 01 acres and 26.5 perches located at Darley Road and the Lot No. s 4 and 5 had been

The proper procedure should be followed in the selection of institutions and disposal of lands for the projects and agreements should be entered into with the Conditions that are not unfavourable to the Authority and a proper

value of the land on Rs. 650 million, the assessment of the Government Chief Valuer and to give a dividend of Rs.162 million to the Authority after the completion of the project in 06 years. However, the BAY SAT MBH (Pvt) LTD had left it in the year 2006 without carrying out the proposed development works and the work had been assigned to the L & T Infrastructure Development. The Authority entered into an agreement with this new company in 2016 by assigning the assessed value of Rs. 650 million, which had been obtained in the year 2006, prior to 10 years, without obtaining a new valuation report for the land. Before paying money under the agreement on 05 May 2016, the ownership of this land had been transferred to the Company on 05 May 2016 by the deed bearing No. 983 and as per the agreement, Rs.712 million had to be paid in foreign currency. However, in contrary to that, payments had been made to the Authority by using two cheques of Sampath Bank dated 05 May 2016 in Sri Lankan Rupees, out of the sum of Rs. 800 million obtained by mortgaging the 3 plots of the land namely Lot No. s 2, 3, 4 to Sampath Bank.

However, L & T Infrastructure Development had not completed the proposed development works until 31 October 2017. Meanwhile, the company had sold the lot No. 05 of this land to the company called OAK through a deed and OAK Street (PVT) company had mortgaged this deed in the People's Bank and obtained a loan of Rs.950 million. The Authority had cancelled the deed of transfer and the OAK Street (PVT) company had filed 3 cases against the Authority in the Supreme Court, the District Court and the Court of Appeal

disposed of to the company by a deed of transfer bearing No. 975. In the year 2006, the name of the said company had been changed as L & T Infrastructure Development and lot No. s 1, 2 and 3 had been transferred by a deed of transfer bearing No. 983 on 10 August 2007 to the company and an additional agreement had been entered into on 05 May 2016, and even though the development work had not been started despite 07 years had passed and the Authority had cancelled the deeds of transfer bearing No. s 975 and 983. Plot No. 01 (819) of Section 3011 Plan, which included parts 1 to 5 of this land and parts of another land had been mortgaged by Darley Road Private Limited and OAK Street Company in People's Bank for Rs. 950 million on 31 October 2007. In this regard, OAK Street Company has filed a fundamental rights case in the Supreme Court and a case in the Colombo District Court and another case has been filed against that judgment in the Civil Appeal Court. It is scheduled to convene on 23 October 2023.

supervision should be done and a formal investigation should be conducted against the officials, who had not paid proper attention to the above matters.

and the enjoyment of the land had been given to the OAK company until the Supreme Court gave a verdict. According to the above facts, it was observed that the Authority had not functioned according to the terms of the agreements that had been entered in to in relation to the parties, who had not performed the development works in the provision of the lands for the development works and The Authority had acted in favour of the parties, who had entered in to agreements with the authority.

- (h) According to a Cabinet Decision, a contract had been entered in to with Eco Home Lanka Ltd. for the construction of a housing complex within 03 years in the year 2004 on the land called Nawala Parangiya Kumbura, in extent of 05 acres and 10 perches owned by the Authority, and the land had been transferred to Rs. 75 million, which had been the government assessed value of the land, by a deed of conveyance with conditions. However, conditions on the action that should be taken in case project works had not been performed had not been included in the agreement. Furthermore, it was decided to transfer it for a sum of Rs.75 million, which had been the assessed value in the year 2003, instead of transferring it for an amount of Rs. 121.5 million, which had been the assessed value in the year 2004, and it had been Rs. 46.5 million less than the assessed value of the year 2004. However, the company had sold an extent of 29.44 perches, out of the transferred land for a sum of Rs.196.5 million to Ceylinco Hospital Services Ltd. in 2006 instead of implementing the development project as entered in to the contract by the company. Meanwhile, the rest of the land

The Authority had entered into an agreement with Eco Home Lanka (PVT) Ltd. on 21 September 2004 to implement a housing project on Parangiya Kumbura land in extent of 05 acres and 10 perches located at Kiri Mandala Mawatha, Nawala, and the land had been transferred by a deed with conditions for a sum of Rs. 75 million, which had been the government assessment dated 21 August 2003. The deed of conveyance had been cancelled and the possession had been transferred to the Authority. This assessment is valid for 02 years. Due to non-fulfillment of the proposed project works and sale of a part of the land to Ceylinco Hospital Services Ltd. In this regard, Eco Home Lanka (Pvt.) Ltd. has filed a case in the Court of Appeal against 04 institutions including the Authority. It is scheduled to convene on 22

The proper procedure should be followed in the selection of institutions and disposal of lands for the projects and agreements should be entered into with the Conditions that are not unfavourable to the Authority and a proper supervision should be done and a formal investigation should be conducted against the officials, who had not paid proper attention to the above matters.

had been mortgaged to Seylan Bank and Rs. 697.5 million had also been obtained. The Authority had cancelled the deed on 26 June 2020 under Section 8 (1) of the National Housing Development Authority Act, No. 17 of 1979, and the company had filed a case against it.

Furthermore, this land had been given to a private company without a procurement process and without an agreement for a monthly rental of Rs. 100,000 as per the decision of the Board of Directors bearing No. 15/2020 dated 01 September 2020 for maintaining a water supply equipment stores. The monthly rental of it had been increased up to Rs. 500,000 with effect from 01 October 2022 and the period had been extended till 31 January 2023. It was also observed that a large concrete mixer, a backhoe, and a generator had been allowed to be destroyed on the land for many years in addition to collecting construction materials on that land.

It was observed that the project objectives could not be achieved as the Authority had not followed proper procurement methods in the disposal of lands for projects by the Authority, not preparing contracts correctly by including the necessary conditions, not obtaining the required assessed values and not functioning with proper supervision. However, the Authority had not taken any action against the parties, who had been responsible for the relevant matters.

- (i) An extent of 5 ½ acres, out of the land in extent of 154 acres and 38 perches owned by the Authority located at Rangirigama in Dambulla had been given to a private company in the year 2007 without a formal approval to construct a paper factory, and written agreement had not been entered in to the private company.

September 2023. Another person has also filed a case in the Colombo District Court to get the ownership of the land. At present, this land has been rented out to Sachindra Enterprises for a monthly rental of Rs.05 Lakhs.

The land of the deed No. 5942 had been given on lease basis for 30 years to ECO MAXIMUS (PVT) LTD. for the construction of a paper factory at Rangirigama of Dambulla owned by the National Housing

Necessary legal proceedings should be carried out promptly.

Since the land utilized for the paper industry had been 2 acres in the year 2012, the Authority had requested the Dambulla Divisional Secretary to return the remaining 3 ½ acres of land to the Authority.

Only the foundation had been laid for constructing the building on this land, and apart from the paper industry, the company had informed the Authority in 2013 that eco-friendly tourism, organic plantations and voluntary projects had to be carried out, approval had not been granted for such projects.

However, an agreement had been entered in to with the company in the year 2019 by obtaining an assessment report of Rs. Rs.2.13 million for 5½ acres from the Valuation Department in the year 2016 and by obtaining a report stating that the rental value as Rs.85,000. According to the 7th condition of the lease agreement, the leased property cannot be used for any purpose other than the paper industry, but the lessee had built a hotel building with 12 rooms on the leased land instead of the paper industry and according to the 18th clause of the lease agreement, legal action should be taken whenever the terms of the agreement are violated. The lack of legal action by the authority was disputed in the audit.

- (j) Even though a sum of Rs. 84 million had been allocated to build 346 houses for disabled people in Kegalle district during the year under review, only 118 houses had been built at a cost of Rs 37.8 million. Even though it had been planned to build 946 houses on provision amounting to Rs. 1027.5 million under the "Viru Sumithuro" housing programme, only 850 houses had been built at a cost of Rs. 890.75 million.

Development Authority. It has been decided to take legal action in relation to the violation of condition of sub-No. 18 mentioned in this lease agreement. Accordingly, further action is being taken.

Two hundred and ninety one (291) houses have been completed for disabled people and 940 "Viru Sumithuro" houses have been completed.

Action should be taken to utilize the allocated provision effectively and efforts should be made to achieve the desired objectives.

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| <p>(k) Ocean View Company, the affiliated company of the Authority, had purchased a land in extent of 398.1 perches from Kahathuduwa area in the year 2012 by incurring a cost of Rs. 19.21 million. Eleven (11) houses had been built in this land by incurring a cost of Rs.77.31 million in the year 2014 under phase 1 of the Kahathuduwa project, and it was not possible to find buyers to sell 4 of those houses even though 7 years had passed. In spite of this, the Board of Directors had decided on 23 November 2021 to build 36 houses on the provision of Rs. 387 million under the pre-sale concept of the phase II of the Kahathuduwa project. Even though construction of 11 houses had been commenced by incurring a sum of Rs. 40.38 million, out of the money of the company, the construction had not been completed even by 31 March 2023, and buyers had not been found for it.</p> | <p>Buyers could not be found as expected due to the prevailing economic crisis.</p> | <p>Planned projects should be completed expeditiously in a manner that they are applicable in achieving the desired objectives.</p> |
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3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Provision amounting to Rs. 2,589 million had been allocated for the construction activities of 8,153 houses, which had been carried forward from the year 2021 under “Obata Geyak - Ratata Hetak”, the assistance programme, from among the housing loan and assistance programmes that had been implemented in the year under review. In the year 2022, 5,878 houses had been built at a cost of Rs. 388 million and even though the construction of 6353 houses had been commenced, construction had not been completed. Thus, it was planned to provide assistance to 1485 houses under this programme in the year 2022 without completing the old constructions, and construction works of only 19 houses, out of such constructions, had been completed. Even</p>	<p>The programme could not be completed as funds were not received properly in the year 2022.</p>	<p>The projects started should be completed promptly and they should be given to the selected beneficiaries of the houses.</p>

though it had been planned to construct 1000 houses by allocating provision of Rs. 600 million for the newly started housing loan programme under internal financial allocation in the year 2022, only 391 houses had been constructed by incurring a cost of Rs. 147.42 million.

- (b) Even though it had been planned to finalize the works of 557 houses brought forward from the year 2021 under the "Mihidu Niwasa" programme by incurring a cost of Rs. 92.23 million in the year 2022, only 210 houses had been built. Even though Rs. 39.5 million had been allocated to start work on 77 new houses and to complete the construction of 21 houses, out of that, in the year 2022, only 08 houses had been built by incurring a sum of Rs. 17.83 million. Although it had been planned to construct 100 houses by allocating a sum of Rs.75 million under the Sevana housing assistance programme in the year 2022, works of 94 houses had been started by incurring a sum of Rs. 32.18 million and the construction of only one house had been completed.

- (c) Action had not been taken to settle an advance of Rs.504.50 million provided for 72 contracts for repairing housing complexes even though a sum of Rs.300.37 million, out of that advance, existed for a period of 3 year to 5 years as at 31 December 2022 and a sum of Rs.204.1 million, out of that advance, existed for a period over 5 years. Out of this, Rs.145.21 million had been provided to the State Engineering Corporation and Rs.176.51 million had been provided to the State Development and Construction Corporation and Rs.182.82 million had also been given to other institutions and individuals. Reasons for this situation were the non-fulfillment of contract works on time and poor project supervision.

As money had not been allocated by the General Treasury owing to the economic crisis prevailed in the country, constructions could not be completed as planned.

The projects started should be completed promptly and they should be given to the beneficiaries of houses.

An amount of Rs. 38.81 million, out of these advances, has already been settled. The rest of the projects are being implemented.

Action should be taken to settle the advances in time.

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| <p>(d) It had been planned to build 2400 houses on the provision of Rs. 1200 million under the Indian housing assistance programme, which had been started in the years of 2017 and 2019. Although it had been planned to construct 820 houses on the allocation of Rs. 242 million under that in the year 2022, only 138 houses had been built at a cost of Rs.41.67 million. Even though Rs. 51 million, out of the provision of Rs. 76 million allocated to repair the sewerage system of the Housing Complex of Himbutu Uyana, Gampaha under the repair of old housing complexes, had been paid to the Water Supply and Drainage Board as at the end of the year under review, the repair works had not been started.</p> | <p>Since the amount of Rs.5 lakhs provided by the Indian government is not enough owing to the economic crisis prevailed in the country, it has been requested to provide Rs.12 lakhs each. As a result of that, construction of houses has been slowed down.</p> | <p>Allocated funds should be utilized effectively and efforts should be made to achieve the desired objectives.</p> |
| <p>(e) Even though the Authority had allocated provision amounting to Rs. 4458.39 million for the implementation of 7 major projects in the year under review, only a sum of Rs. 3352.92 million had been actually received. Any activity of 2 Siyapatha projects that had been planned had not been carried out, and the construction works of 2 projects had been at the level of 22 and 29 percent and the progress of another 3 projects was in the range of 5 to 8 percent.</p> | <p>Activities of 6 projects have been stopped.</p> | <p>Allocated funds should be utilized effectively and efforts should be made to achieve the desired objectives.</p> |
| <p>(f) Authority had started 10 housing projects together with private investors as at 31 December 2022, and the Authority had received Rs. 180.70 million for the provision of lands for that purpose. A sum of Rs. 167.36 million had been received for the lands provided between 2013 to 2017. Accordingly, the works of 08 projects had not been completed even though more than 5 years had passed since the lands had been provided. Even though two years had passed after providing Rs. 233.48 million, out of Rs. 291.47 million provided as contract advances by the Authority, and more than 5 years had passed after providing Rs. 57.61 million, out of the contract advances, it had not been possible to recover these advances as contract works had not been started.</p> | <p>These were the Projects implemented with private investors under Public Private Joint Programme. Geo Survey Report of the Phase II and Phase III of Hantana Housing Project, out of those projects, has already been provided and a Cabinet Memorandum has been submitted again to restart the projects in accordance with its conditions and recommendations and to get approval for the price</p> | <p>Necessary activities and supervision should be carried out to implement the projects promptly.</p> |

fluctuation.

Yakkala Siane Uyana Soba Uyana Housing Project and Phase I and Phase II of Kalugala Pallekele Regency Park Housing Project, Phase II of Jalthara Housing Project, Homagama Mount Clifford Housing Project have been finalized. Wadduwa - Nugagahakanattawatta Housing Project, Ragama Lavanya Heights Apartment Project - A case has been filed to recover the money in the Escrow Account. Mihindupura Housing Project - Cabinet approval for re-implementation of the project has been received on 30.11.2021.

3.4 Resources that had been released to other Organizations

Audit Observation	Comments of the Management	Recommendation
According to paragraph 9.4 of the Management Services Circular No. 12 dated 30 May 2003, the employees of an organization cannot be released to the line ministry or any other organization without the approval of the Cabinet and if released in that manner on a formal approval, any payment should not be made during that period. However, 09 officers of the Authority had been released to ministries, corporations and companies in contrary to that. Salaries and allowances amounting to Rs. 3.6 million paid to 07 officers, out of those employees, by the Authority during the year had not been reimbursed.	Since the 07 officers are performing duties in concurrence with the housing programmes assigned to the Housing Authority, the Salaries and allowances of the officers will not be reimbursed.	Action should be taken in compliance with the instructions of the Circulars.

3.5 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
The approved number of employees of the Authority as at 31 December 2022 had been 2164 and the actual number of employees had been 1716. However, there had been 728 vacancies and 181 excesses in the analysis of each post.	There were 670 vacancies and 232 excess staff members in the appointment of the approved staff.	Action should be taken expeditiously to fill vacancies of the essential posts and the excess staff should be utilized effectively.

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation	Comments of the Management	Recommendation
Even though the annual performance report must be prepared within 150 days after the end of the financial year and tabled in Parliament with a copy to the Auditor General as per the Public Finance Circular No. 402 dated 12 September 2022, the Authority had not taken action to table the annual reports related to the years 2019, 2020 and 2021 in the Parliament even by 26 October 2023.	The annual reports of the years 2019 and 2020 have been submitted to get them translated.	Action should be taken as per the instructions of the Circulars.

4.2 Corporate Plan and Action Plan

Audit Observation	Comments of the Management	Recommendation
According to paragraph 2.3 of the Guidelines of the Public Enterprises Circular No. 01/2021 dated 16 November 2021, the strategic plan for the period of 2021-2024 had not been prepared by the Authority and the action plan and annual budget prepared by the Authority had not been submitted to the Director General of the Department of Public Enterprises or to the Director General of the Department of National Budget.	Will be prepared in the year 2023.	Action should be taken as per the instructions of the Circulars.

4.3 Audit Committees

Audit Observation	Comments of the Management	Recommendation
Even though the Audit and Management Committee should meet at least once a quarter and submit a report with its recommendations to the Board of Directors according to Section “H”	Only 2 Management Committee Meetings were held in the year 2022 and it was not possible to reserve a date for the 03 rd	Action should be taken as per the instructions of the Circulars.

of paragraph 4.2 of the Public Enterprises Circular No. 01/2021 dated 16 November 2021, only two Audit and Management Committee meetings had been held by the Authority during the year under review.

meeting even though requests had been made from the representative of the Ministry of Finance, who had chaired the Audit And Management Committee.

4.4 Sustainable Development Goals

Audit Observation

According to the 2030 Agenda for Sustainable Development, the Authority had not identified sustainable development goals, targets and indicators related to its scope.

Comments of the Management

The National Housing Development Authority has started identifying targets according to the Sustainable Development Goals No. 11.

Recommendation

The Sustainable Development Goals should be identified and indicators should be identified to achieve the targets and measure their progress.