

National Housing Development Authority and its Subsidiary - 2024

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 2024 comprising the statement of financial position as at 31 December 2024 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 information of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Audit Scope (Auditor's Responsibilities for 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;

- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statement

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) In non-compliance with Sri Lanka Public Sector Accounting Standard No. 02, changes in long-term investments amounting to Rs. 45.134 million had been included in calculating the cash flows generated from operating activities in the statement of cash flows.	A revised cash flow statement will be submitted.	In compliance with the standard, changes in long-term investments should be identified under investing activities.
(b) Although, in compliance with paragraph 90 of Sri Lanka Public Sector Accounting Standard No. 07, the date on which the revaluation of motor vehicles carried out in 2024 becomes effective, and whether an independent valuation officer was engaged, should be disclosed in the financial statements, the Authority had not disclosed those required details in the financial statements. As well as, in terms of paragraph 92 of the standard, the Authority had not disclosed in the financial statements the fully-depreciated assets that are still in use.	The relevant disclosures will be made in the year 2025.	According to the standard, the necessary disclosures regarding revalued assets and fully depreciated assets should be made in the financial statements.
(c) Contrary to paragraph 100 of Sri Lanka Public Sector Accounting Standard No. 08, the Authority had not disclosed in the financial statements the information relating to the case filed in the Matara Labour Court by employees who were removed from service, claiming compensation.	Since money has been deposited in court in relation to the cases filed in the Labour Court, this will not constitute a contingent liability.	According to the standard, information regarding the cases filed against the Authority claiming compensation should be disclosed in the financial statements.

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| <p>(d) Contrary to paragraphs 11(i) and 18 of Sri Lanka Public Sector Accounting Standard No. 9, land amounting to Rs. 1,101.568 million included in the authority's land acquisition and land development expenditures and intended for sale were identified and the cost plus the expenses incurred to bring them to their present condition were added to the related assets and recorded under non-current assets instead of being accounted for as inventory.</p> | <p>Circumstances determine how we use the land, and we treat land as a non-inventory asset. We record land compensation and development costs as development assets and keep them out of inventory. In 2025, we will include the compensation and development costs of land held for sale in inventory.</p> | <p>Identify the costs related to lands for sale according to the standard and account for them under inventory and also action should be taken to correct the financial statements.</p> |
| <p>(e) By assigning officers from the National Housing Development Authority security service to security work in other institutions, As at 31 December 2024, the Authority had a receivable balance of Rs.5.83 million. Included in this amount is Rs. 2.999 million, which is a balance that has existed since before 1995 in respect of providing security services for the Gam Udawa programme and this balance, had been shown in the financial statements for a long period, but no provision in respect of it had been made in the accounts.</p> | <p>This amount is receivable by the Central Environmental Authority, and balance confirmation letters have also been requested. Decisions regarding this matter are to be made based on the responses received.</p> | <p>In accordance with the accounting policies applicable to receivables, the necessary provisions should be made and accounted for, and action should be taken without delay to recover the balance.</p> |

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Although the cost of the building in which the Kalmunai District Office is located was Rs. 4.554 million, its accumulated depreciation had been recorded as Rs. 4.666 million. This error had not been corrected, and consequently a negative carrying value of Rs. 0.112 million had been shown in the financial statements.</p>	<p>Due to an error in a command used during the computer preparation of the final accounts report, the net value had been recorded as a negative figure, and action will be taken to correct this in the year 2025.</p>	<p>The depreciation value of property, plant, and equipment should be corrected, and the asset values should be adjusted accordingly.</p>
<p>(b) Although the fixed deposit interest income applicable to the year under review was Rs. 43.737 million, it had been reported as Rs. 123.152 million in the financial statements, resulting in an overstatement of</p>	<p>The interest income receivable will be corrected when preparing the accounts for the year 2025.</p>	<p>The fixed deposit interest income should be accurately presented in the financial statements.</p>

Rs. 79.415 million in the interest income for the year.

- (c) The value of 69 plots of land amounting to 746 acres, 1 rood, and 28.95 perches, which were taken over by the Authority after 2013 without paying compensation, had not been assessed and accounted for.
- There are 69 plots of land taken over after 2013 without paying compensation, measuring 746 acres, 1 rood, and 28.95 perches. For these lands on which projects have been constructed, agreements have been signed between the individuals and the National Housing Development Authority, and possession has been handed over for use. A valuation will be carried out when the land is being utilized for the housing project.
- The relevant land should be valued at its fair value in order to correct the accounts.

1.5.3 Documentary Evidences not made available for Audit

	Item	Amount Rs.Million	Evidence not available	Management Comment	Recommendation
(a)	Accounts Payable (to the Treasury)	610.269	Balance confirmation	When the Department of Housing was dissolved and the Housing Development Authority was established, the book balances were transferred. An inquiry has been made regarding the settlement by the Treasury, but no response has been received so far.	It is necessary to take prompt action to confirm and reconcile the balance.
(b)	Accounts Payable (to the Department of Livestock and Health)	13.316	Balance confirmation.	If no response is received to the balance confirmations sent regarding the sum of Rs.13.316 million payable to the Department of Livestock and Health, action will be taken to	It should be acted upon without delay to verify and clarify the remaining balance.

recognize it as income for the year 2025.

(c)	Accounts receivable (to the Treasury)	61.47	Balance confirmation.	The Authority, considering that funds would be received from the General Treasury for the projects carried out in the years 2018 and 2019, spent money from its internal revenue. Since these funds have not yet been received from the General Treasury, adjustments will be made against the profit of the previous year in 2025.	Once a reasonable assurance is obtained that the balance cannot be recovered, the necessary adjustments should be made based on the formal approvals.
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1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) Advertising expenses should be incurred based on the agreements entered into with the relevant institutions, and if this has not been done, formal action should be taken against the responsible parties. However, due to the Sevana Media Unit’s failure to act in the required formal manner, out of the balance of Rs. 23.681 million receivable by the Authority as at 31 December 2024 for promotional activities carried out under the Media Unit, an amount of Rs. 17.225 million representing receivables overdue by more than five years from 13 institutions in the public and private sectors remained outstanding. This amount also included balances outstanding for up to 23 years.	Actions have been taken to collect the money due from public and private institutions, and the arrears are being discussed with the higher management by visiting the institutions.	Prompt recovery of dues and disciplinary action should be taken against the officers responsible as per Part II Chapter XLVIII Paragraph 29 of the Establishment code against the defaulting officers.

- (b) From the year 1988 to 2024, out of the Rs. 208.466 million in advances granted by the Authority to contractors for 33 contract projects, Rs. 147.341 million had remained outstanding for a period of 2–3 years, and Rs. 57.687 million had remained outstanding for more than 5 years. However, by the end of the year under review, these advances still had not been settled.
- Out of these advance payments, an amount of Rs.110.52 million should be recovered from the State Engineering Corporation, while the remainder should be recovered from other institutions. The Secretary and the Chief Financial Officer of the Line Ministry have been informed regarding the recovery of these funds, and discussions have been held with their intervention. It will be possible to settle these amounts in the year 2025.
- Disciplinary action should be taken against the officers who failed to settle the loans and advances during the period, in accordance with Section 29 of Chapter XLVIII, Part II of the Establishments Code.
- (c) Between 2011 and 2019, the Authority had provided advances totaling Rs.261.85 million to external parties for 42 projects, including housing complex renovations, water projects, and bridge constructions. However, more than 5 years had passed, and by the end of the year under review, no action had been taken to settle these advances. Out of this amount, Rs.254.361 million, that is, 98 percent consisted of advances provided to the State Engineering Corporation.
- Out of these advance payments, Rs. 254.36 million should be recovered from the State Engineering Corporation, and Rs. 11.99 million should be recovered from the National Equipment and machinery organization. An amount of Rs. 5.3 million to be recovered from the National Equipment and machinery organization was collected in the year 2025. The Secretary and the Chief Financial Officer of our Line Ministry have been informed regarding the amounts to be recovered from the State Engineering Corporation and the National Equipment Corporation, and several rounds of discussions have been held with their intervention.
- Disciplinary action should be taken against officers who failed to promptly settle loans and advances, and who did not take action to settle loans and advances within the stipulated time, in accordance with Section 29 of Chapter XLVIII, Part II of the Establishments Code.
- (d) The National Equipment and machinery organization, which was
- During the period that the National Equipment and
- Disciplinary action should be taken against officers who failed

joined with the National Housing Development Authority, was merged with the State Engineering Corporation after January 1, 2012. During the period it was affiliated with the Authority, advances and loans periodically provided by the Authority totaled Rs. 230.807 million, which remained to be recovered by the Authority as of December 31, 2024. This total included a balance of Rs.10.365 million carried forward from before 2004. This balance had been recorded in the accounts as receivable for a long period without being recovered.

machinery organization was under our Authority, the loans periodically provided since 2012, and the fact that they operated under the same TIN number as our Authority, meant that an amount of Rs.230.807 million, recoverable as tax payments to the Department of Inland Revenue, is included in this total.

At the time when the closure of this institution was recommended, the Treasury was also informed to transfer these funds to our Authority. Furthermore, information regarding these funds has also been presented in the discussions held with the intervention of our Line Ministry concerning the amounts currently recoverable by our Authority from the State Engineering Corporation and the National Equipment and machinery organization.

to promptly settle loans and advances, and who did not take action to settle loans and advances within the prescribed period, in accordance with Section 29 of Chapter XLVIII, Part II of the Establishments Code.

- (e) A total of Rs. 4 million was held as miscellaneous advances in current assets, of which Rs. 3.952 million had been provided by the Hambantota District Office between 2016 and 2019 for various development activities. Further, of these advance funds, Rs.1.250 million was provided without proper approval to the "Retirees' Fund Divisional Secretariat Association" for the construction of a water tank in Sobithnahimi village, and no action has been taken to recover this amount to date.

Between 2016 and 2019, the Hambantota District Office provided the relevant contract as an advance to the "State Retirees' Fund Divisional Secretariat Association" for the construction of the Sobithagama water tank. The construction work has been carried out, and letters have been sent requesting the repayment of the advances provided.

Special attention should be given to promptly recovering advances and to loans and advances provided without proper approval, and disciplinary action should be taken without delay against the relevant officers in accordance with Section 29 of Chapter XLVIII, Part II of the Establishments Code.

- (f) In between 2019 and 2021, the Hambantota District Office spent Rs.71.224 million through the Ceylon Building Materials Corporation Limited to purchase cement, tiles, and other materials, which were provided to beneficiaries of housing projects. Although this amount was supposed to be repaid in installments by the beneficiaries, no amount had been recovered as at 2024 against the Rs.71.224 million.
- In the year 2025, action will be taken to recover from the beneficiaries the amount spent on purchasing goods from the Ceylon Building Materials Corporation Limited, as recorded in the accounts.
- Disciplinary action should be taken against officers who failed to act according to the agreements and did not take actions to recover amounts due in installments, in accordance with Section 29 of Chapter XLVIII, Part II of the Establishments Code.

1.6.2 Payables

Audit Observation	Management Comment	Recommendation
As at December 31, 2024, Rs. 52.514 million was payable to the Urban Development Authority, and a balance of Rs. 104.357 million was receivable from the Urban Development Authority. These amounts had been recorded in the Authority's financial statements for periods ranging from 22 to 40 years. However, according to the information from the Urban Development Authority, only a balance of Rs. 40.86 million was shown as receivable from the National Housing Development Authority.	Discussions are ongoing, with the intervention of the Secretary of the Ministry, to settle the balances payable and receivable between the National Housing Development Authority and the Urban Development Authority.	Action should be taken without delay to settle the receivable and payable account balances, examine any discrepancies between the accounts, and correct them in the financial statements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 44 of the Land Acquisition Act of March 09, 1950	According to Section 44 of the Act, the Authority was required to allocate 50 land plots through certificates and 44	Payments have been made to complete the acquisition of 6 land plots owned by the People's Plantation Development Board	According to Section 38(1)(d) of the National Audit Act No. 19 of 2018, during the system audit, internal controls related to land acquisition and disposal should be

land plots belonging to other institutions. However, the acquisition process had not been completed by the audit date.

and 10 land plots owned by the Land Reform Commission, Although instructions have been given to issue the relevant deeds, these lands have not yet been issued to the Authority. Furthermore, the valuation of 28 land plots owned by the Land Reform Commission has also not been submitted to the National Housing Development Authority to date.

strengthened, written instructions should be issued, and supervision should be carried out.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka, Regulation 105(4)
- Although the officer or officers responsible for the loss are primarily accountable for its recovery, in addition, the appropriate authorities should, when necessary, take disciplinary action against each of these officers separately under the Establishments Code. In between 2016 and July 2025, disciplinary proceedings related to misconduct were initiated concerning 34 employees of the Authority; however, the Authority has not yet completed these proceedings.
- Action will be taken to promptly conclude the disciplinary matters concerning these 34 employees.
- Disciplinary proceedings should be conducted within the prescribed time and the relevant decisions implemented without delay, in accordance with Section 21 of Chapter XLVIII, Part II of the Establishments Code.

- (c) Public Administrative Circular No. 25/2014 dated November 12, 2014
- In the public service, provincial public service, and state institutions and boards, employees can be recruited on a temporary, casual, or substitute contract basis only after obtaining prior approval from the Department of Management Services for the staff and after the relevant provisions have been approved. The Authority failed to act accordingly and recruited 1,486 employees on a contract basis. Therefore, in accordance with DMS/Policy/Recruitments and the Treasury Secretary's Circular dated November 20, 2019, the service of these employees was suspended. Due to cases filed by the relevant employees at the Labour Tribunals, an amount of Rs. 85 million was deposited in those courts from 2020 to 2024 for the payment of compensations to 256 employees. In addition, Rs. 33.9 million was paid as external legal fees for
- Since January 1, 2025, no further recruitments have been carried out without following the proper procedures. According to the Board of Directors' decision recorded in the Board of Directors' minutes, as of January 13, 2020, approval was granted to terminate the contract service of employees whose contract period had ended on that date or on any subsequent date. As a result of this Board of Directors' decision, the employees serving on a contract basis were removed from service upon the completion of their contract period. Out of this group of employees, 910 have filed cases before the Labour Tribunal. In this regard, the Board of Directors' decision obtained external legal assistance.
- Disciplinary action should be taken without delay against officers who acted to recruit employees without prior approval from the Department of Management Services, in accordance with Section 29 of Chapter XLVIII, Part II of the Establishments Code.

these cases during the same period.

- (d) Paragraph 6.6 of the Operations Manual introduced by the Public Enterprises Circular No. 01/2021 dated November 16, 2021
- Although the annual report should be presented to Parliament within 5 months of the end of the financial year, the Authority has not submitted annual reports to Parliament since 2022.
- The 2023 annual report was submitted to the Ministry on March 17, 2025. The 2024 annual report was submitted on June 24, 2025, for Board of Directors' approval.
- Action should be taken to ensure that the annual report is presented to Parliament within 5 months of the end of the financial year without fail.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 870.48 million and the corresponding deficit in the preceding year amounted to Rs. 966.57 million. Accordingly, a decrease of deficit amounting Rs. 96.1 million was observed in the financial results. The reasons for this variation was mainly due to an increase in interest income by Rs. 256.67 million, land sale income by Rs. 96.56 million, and other income by Rs. 150.88 million, along with a decrease in other expenses by Rs. 273.37 million and financial expenses by Rs. 110.76 million.

2.2 Trend Analysis of major Income and Expenditure items

Expenditure/Income	2024 (Rs.)	2023 (Rs.)	Variation (Rs.)	Variation (%)
Income				
Revenue from Interest	1,484,482,324	1,227,808,340	256,673,984	21
Sales of Land	174,466,816	77,905,794	96,561,022	68
Other Revenue	271,667,242	120,788,631	150,878,611	125
Expenditure				
Other Expenses	921,956,327	1,195,326,101	273,369,774	23
Financial Expenses	110,045,090	220,808,087	110,762,997	50

2.3 Ratio Analysis

The current ratio for the year under review and the previous year was 2.33:1 and 2.26:1, respectively, while the quick asset ratio was 2.32:1 and 2.25:1, respectively. Accordingly, the liquidity of the Authority during the year under review was at a higher level compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) The Authority granted a mixed development project, consisting of a residential and commercial complex, on a land of 1 acre and 26.5 perches located at 10 Darley Road, Colombo, to a foreign company on November 9, 2005, based on Cabinet approval, without calling for a public price tender. According to the agreement entered into with the company on June 23, 2006, it was agreed that the land would be charged based on a valuation of Rs. 650 million by the Government Chief Valuer, and that a profit share of Rs. 162 million would be paid to the Authority upon completion of the project within six years. However the company withdrew in 2006 without completing the proposed development activities and the project was subsequently planned to be assigned to another foreign company. Prior to payment, the ownership of the land was transferred to the new company by the Authority on May 5, 2016, through Deed No. 983. According to the agreement, Rs. 712 million in foreign currency was to be paid to the Authority. However, in violation of this, the company obtained Rs. 800 million by mortgaged land plots 2, 3, and 4 to a private bank and, in 2016, made payments to the Authority of Rs. 712 million in local	Contrary to the order dated September 28, 2022, in case No. DLM/109/2021 filed by the company in the Colombo District Court, the company had filed a case in the Civil Appellate High Court of the Western Province, and the order for that case was issued on March 17, 2025. According to that order, the answer in case No. DLM/109/2021 at the Colombo District Court has been accepted, and a preliminary hearing has been directed to be conducted. Case No. DLM/109/2021 at the District Court is scheduled to be summoned for the reading of the order dated March 17, 2025, in the Civil Appellate High Court of the Western Province mentioned above.	When selecting institutions for projects and disposing of land, proper procedures should be followed in accordance with the relevant regulations. Action should also be taken to ensure the Authority is represented fairly in legal proceedings. Disciplinary action should be taken against officers who act in contravention of the rules and regulations, in accordance with Section 29 of Chapter XLVIII, Part II of the Establishments Code.

currency through three cheques. Additionally, a payment of Rs. 100 million had been made in 2006 in relation to this matter.

Nevertheless, as at the audit date, the company had not carried out the proposed development activities. Meanwhile, in 2017, the company had sold lot No. 05 of this land to another third company by a deed, and that company had obtained a loan of Rs.950 million from the People's Bank by mortgaging that deed. The Authority had annulled that deed of sale, and the third company had filed three lawsuits against the Authority in the Supreme Court, District Court, and Court of Appeal. Until a judgment is delivered, the court has granted control of the land to that third company.

Based on the above facts, it was further observed that actions had not been carried out in accordance with the powers vested under the Authority Act, and that duties had been performed in a manner favorable to the parties entering into agreements with the Authority.

- (b) Under the "Janasevana" National Housing and Settlement Development Program, a contract was signed on July 2, 2013, between the National Housing Development Authority and a private company developer for the construction of a 28-unit apartment complex as part of the Kawirathna Residencies housing project, implemented jointly by the public and private sectors. Contrary to the Procurement Guidelines, construction work was entrusted to a Malaysian construction company based on a project report
- According to Cabinet Memorandum No. 13/0463/517/010, approval has been granted to select developers for projects implemented jointly by the public and private sectors through a call for expressions of interest for the Kawirathna Residencies Housing Project. Accordingly, in 2013, expressions of interest were invited to implement the Kawirathna Residencies
- Project planning, selection of investors, and implementation of projects according to agreements should be systematically reviewed in the relevant operational field. Written rules, regulations, and instructions should be issued for this purpose, and proper supervision should be carried out.

submitted by the company. However, the company's required technical expertise, the suitability of the proposed housing plan, and a proper study of similar housing complexes previously constructed by this developer had not been conducted. Furthermore, according to the terms of the agreement, construction work was to commence within three months of signing the contract. However, since the company had not started construction, the agreement was canceled. Due to the failure to select a land and an investor for the housing project based on a proper study, the Authority was unable to implement the proposed housing project.

housing project. After inviting expressions of interest, the project proposals submitted by the developers were referred to the Fixed Project Evaluation Committee established under the Line Ministry.

Following the review by the Committee and the SCARC (Standing Cabinet Appointed Review Committee), the relevant private company was selected, and the Committee referred the matter for Cabinet approval. According to the Cabinet decision, the project was assigned to that company.

The access road to this land for the project is a 15-foot-wide narrow and winding road, which is insufficient for transporting raw materials, concrete mixes, and relevant equipment, making the implementation of such a building complex housing project extremely difficult. Since this land is owned by the National Housing Development Authority, no loss has been incurred by the Authority in this regard.

- (c) The 5 acres and 10 perches of land belonging to the Authority, known as Nawala Parangiya Kumbura, had been contracted in 2004 based on a Cabinet decision with a private company for the construction of a housing complex. This land had been transferred to the

After the land at Parangiya Kumbura was returned to the Authority from Echo Homes Company, a large number of machinery and equipment belonging to Echo Homes remained on

Proper procedures should be followed when selecting institutions for projects and disposing of land, and agreements should include conditions that do not cause a disadvantage to the

company through a conditional lease deed, at the 2003 government valuation of Rs. 75 million. As the land was transferred based on its 2004 valuation, the Authority had lost Rs.46.5 million in valuation revenue. However, instead of implementing the development project as agreed, the company had sold 29.44 perches of the allocated land to another company in 2006 for Rs. 196.5 million. Furthermore, the company had mortgaged the remaining portion of the land to Seylan Bank and obtained Rs.697.5 million. Under Section 8(1) of the National Housing Development Authority Act No. 17 of 1979, the Authority cancelled the deed on 26 June 2020, and the company had filed legal action against this decision. In addition, another individual had also filed a separate case in the District Court seeking to obtain ownership of the said land, claiming it to be his private property. Accordingly, the Authority had not followed the proper procurement procedures when allocating land for the project, had failed to prepare agreements correctly with the necessary conditions, and had not carried out activities with proper supervision.

the land. In such a situation, it was not possible to allocate the land for a project or any other purpose through the procurement process.

However, based on a request from Savindra Enterprises Company, the land was granted on a temporary basis with Board of Directors' approval solely for storing their project sand and equipment. As Echo Homes Company failed to properly carry out the construction of the housing complex as per the agreement, Deed No. 1405 was canceled by the National Housing Development Authority, which led the company to file a case against the Authority.

Authority. And disciplinary action should be taken against officers who failed to exercise proper supervision and did not give due attention to the above matters.

(d) A 57.69 perch land in Dambulgama Model Village was developed with a building by the National Water Supply and Drainage Board and used as an official residence for the Board's requirements. However, it was not included in a lease agreement with the National Housing Development Authority, and no rent payments were made for it.

A request was made to the Valuation Department on December 19, 2024, to obtain the current lease valuation for the 57.69-perch land in Dambulgama Model Village to be leased to the National Water Supply and Drainage Board. The valuation has not yet been provided. However, once the valuation is

Action should be taken to collect rent for the entire period during which the Board constructed and used the building on the Authority's land, and a proper lease agreement should be executed.

received, action will be taken to lease the land on a rental basis.

- (e) Nine shops stall in Dambulgama Model Village were rented out without a formal lease agreement, and from 1982 to 2024 over a period of more than 40 years only approximately Rs.759,944 was collected as rent without a proper valuation. Although the Government Valuation Department assessed the rent at Rs. 60,000 in 2018, no action was taken accordingly. According to Section (c) of Internal Circular No. 2011/De.K/03 of the Property Management Division, lease agreements should be renewed every two years at the lower of the land's value or the net income plus 4%. However, this procedure was not followed.
- Action is being taken to revise the monthly rent and obtain valuation reports, and shop stall owners have been informed to re-sign the lease agreements. However, some shop owners have deliberately avoided signing the agreements. Legal action will be taken in the future to remove the occupants from the shops stall.
- After a proper assessment, action should be taken against the officials who did not work to generate income for the authority according to the agreement, did not charge the tax rent in accordance with the assessment and did not take action to amend the tax rent according to the circular, according to paragraph 29 of Chapter XLVIII of Part II of the Establishment Code and to update the rent agreements and develop the payments due to the authority without delay.
- (f) In the Buddha Rakshitha Nahimi Village, a Model Village, it was observed that out of the total loan amount provided to five beneficiaries of five houses, a sum of Rs. 1.068 million was misappropriated and, instead of being remitted to the National Housing Authority, had been sold to other parties. Accordingly, a government property, over which full ownership had not been transferred to them, was sold to another party, and no action has been taken in this regard to date.
- The Buddha Rakshitha Nahimi Village in the Ampara District, under the Model Villages Programme, is a housing project that was implemented based only on the consent obtained from the institutions that provided the land, for the purpose of carrying out a housing project on the allocated land.
- Accordingly, the process of allocating this land is ongoing, and after the land is formally transferred (land owned by the Divisional Secretary), actions can be taken regarding encroached land and unauthorized occupants.
- Before commencing construction, ownership of the land should be verified. Actions must be taken without delay in accordance with agreements concerning government property that has been sold.

- (g) In the Polonnaruwa District, construction of 100 model villages across 50 Grama Niladhari divisions under 6 Divisional Secretariats was initiated. The approved allocation for building 2,283 houses in these villages was Rs. 1,211.750 million. As at the audit date, 31 July 2024, only Rs.456.883 million of the approved allocation had been released, leaving Rs. 754.847 million still outstanding for payment. The projects, which were initiated in 2016, were largely halted midway, resulting in only a portion of the houses being constructed. Out of all the model villages, only 16 villages were fully completed and opened.
- After 2019, no financial allocations were received for the model villages initiated in Polonnaruwa District, resulting in no further construction. Only the 16 villages where loans and grant funds were fully disbursed have been handed over to the public, and since then, no progress or changes have occurred in the remaining constructions.
- An assessment should be conducted on the housing units where construction has commenced, and the loan funds required to complete the remaining units should be allocated according to the approved plans. Actions must be taken without delay to achieve the planned targets, and the loan recovery process should be formalized.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) According to the provisions of the Authority Act and the procedures related to land alienation outlined in Circular No. 2011/De:K:/01 of the Property Management Circular Compilation dated 01 January 2012, land had been alienated on 23 occasions without following the required procedures. Although it was stated that these land disposals were carried out under Section 75(1) of the Authority Act, the audit observed that privately executed land alienations do not fall under the scope of that provision. And It had been stated that the Attorney General had been consulted regarding this provision, but the Attorney General's interpretation too had not been presented for audit.</p>	<p>Under Section 75(1) of Act No. 17 of 1979, the Minister may, in advance, issue general or special directions regarding the exercise of powers and the performance of functions and duties, and such directions must be implemented by the Authority. Under this provision, 23 plots of land were alienated, and together with 42 plots allocated through the procurement procedure, a total of 65 plots of land were disposed of.</p>	<p>According to the provisions of the Act, circulars and procedures must be prepared and approved, and disciplinary action should be taken against the officers who failed to make correct decisions in accordance with those circulars.</p>
<p>(b) Although the Ragama Lavanya and Wadduwa Seabreeze housing projects, which were initiated in 2016, had not</p>	<p>Arrangements are being made to resume construction work.</p>	<p>A proper plan should be followed when initiating and implementing housing</p>

been completed, they showed only about 55 percent progress even by the end of 2024. Although the housing applicants had made payments amounting to Rs. 1,296.175 million for these houses, the project had been halted because the contractor withdrew from the project based on a court order. As well as, due to the increase in raw-material prices, the price of the house had also been adjusted.

projects and prompt actions must be taken to complete the work of this project without delay.

- (c) Although the construction of 65 housing units in Maradagahamula, Wawegodaellawatta, under the programme to build 100 houses for middle-income earners in every electoral division, was awarded to the State Engineering Corporation at a cost of Rs. 485 million under the contract system It was also observed that in some instances the expenses had increased by 50 percent to as much as 125 percent above the estimated cost. Furthermore, according to the Board of Directors' Decision No. 10708 (16/2022) dated November 16, 2022, it had been decided to halt the ongoing construction activities. For a large-scale project of this nature, an amount of Rs. 117.29 million had been spent, and by the date of audit, the work had been halted midway. No action had been taken against the responsible officers regarding the uneconomic expenditure incurred due to the abandonment of the project.
- At the commencement of the project, due to the economic inflation in the country, the prices of construction materials increased significantly, resulting in expenses rising above the estimated cost. This project had originally been a pre-sale housing project. And due to the lack of housing demand under the prevailing conditions, together with the financial crisis faced by the State Engineering Corporation and the slow progress of construction, the project had to be halted without achieving the expected progress. Furthermore, considering the instructions issued under National Budget Circular No. 03/2022 dated 22 March 2022, which directed that construction work should not be commenced on projects that had not yet begun, this project was accordingly discontinued. At present, the necessary steps are being taken to call for Expressions of Interest in order to select a suitable contractor to restart the project.
- A systematic review of the internal controls relating to housing projects should be prepared, and the relevant procedures should be documented and implemented without delay in order to minimize uneconomic expenditures through proper supervision. Formal action should also be taken against the responsible officers who failed to make appropriate decisions.

- (d) For promotional and ceremonial activities related to Model Villages, the Head Office had incurred expenses amounting to Rs. 304.86 million and the District Offices had incurred a total of Rs. 13.17 million during the period 2015–2019. In addition, for various activities related to inaugurations, the Head Office had incurred a total of Rs.181.90 million, while the District Offices had incurred Rs. 20.53 million. Accordingly, an amount of Rs. 520.46 million, which could have been utilized for housing construction, had been ineffectively spent on promotional and ceremonial activities. By the end of the year 2024, under this Model Villages project, out of the 1,089 houses constructed on 115 acres, 2 roods and 20.54 perches across 25 districts, the beneficiaries had not occupied the houses by the end of the year under review. The reasons for non-occupation included: threats of elephant attacks affecting 9 houses, 182 beneficiaries owning another residence, and 45 beneficiaries being employed overseas. Furthermore, 09 houses had been sold to external parties. Although construction of 64407 houses had been initiated under the Model Villages Housing Project, the construction of 18706 of these houses had been discontinued. Accordingly, the number of incomplete houses stood at 29585.
- In this context, based on the need to make the public aware of the Government’s housing programme, the Ministry had issued the necessary instructions and decisions to implement promotional campaigns. Accordingly, the promotional activities carried out by the National Housing Development Authority were undertaken based on the Ministry-level instructions given to carry out such activities. I wish to state that the expenses mentioned in the audit inquiry were incurred as a result of acting upon those instructions. Although the programme was initiated during the period 2015–2019, it is being continued with the completion of activities depending on the receipt of Treasury provisions.
- A systematic review of the internal controls relating to housing projects should be prepared, and the relevant procedures should be documented and implemented without delay in order to minimize uneconomic expenditure through proper supervision. Formal action should also be taken against the responsible officers who failed to make appropriate decisions.
- (e) Under the Indian-assisted Grama Shakti Model Villages Programme, which was launched in 2017 with the objective of constructing houses equipped with basic facilities for families living in temporary, unstable shelters such as shacks and huts without land or minimum living amenities, it was planned to construct 25 villages, each comprising 24 houses,
- The Model Villages Programme is a housing assistance scheme implemented for low-income communities. Due to the minimal contribution from beneficiaries in addition to the provisions received from the Government of India, the construction activities under the
- Action should be taken without delay to complete the construction of the incomplete houses and achieve the targets.

across 25 districts within a period of 8 months during the two years of 2017/2018. In addition, under Phase I of the Southern Province Grama Shakti Project, it was planned to construct 600 houses. With assistance of Rs. 600 million received from the Government of India, providing Rs. 0.5 million per beneficiary, it was planned to construct 1200 new houses. However, under the Deep Spread Villages Project, by 30 June 2025, only Rs. 297.44 million had been spent, and only 537 houses had been constructed, leaving 63 houses incomplete. As well as, under Phase I of the Southern Province Gram Shakti Project, by 30 June 2025, Rs. 234.12 million had been spent to construct 130 houses, while 470 houses remained incomplete.

Indian-assisted Model Villages Programme, implemented across the country, have experienced delays.

- (f) Under the Indian-assisted Grama Shakti Model Villages Programme, which received Rs. 600 million in 2019, it was planned during 2019/2020 to construct 1200 houses 25 projects in the Northern Province and 25 projects in the Hambantota District. However, under the Northern Province Gram Shakti Project, by 30 June 2025, only Rs. 178 million had been spent and approximately 129 houses had been constructed, leaving 471 houses incomplete. As well as, under Phase II of the Southern Province Gram Shakti Project, in the Hambantota District, Rs.128.55 million had been spent to construct 23 houses, while 577 houses remained incomplete.

These projects target low-income families, and the assistance provided under the Indian aid was not sufficient to complete the houses. Currently, the cost to complete a 550-square-foot house is Rs. 1.7 million; therefore, at least Rs. 1.2 million should be provided to the beneficiaries to complete these incomplete houses. Accordingly, it has been proposed, with the agreement of both parties, to complete the work of these housing projects by utilizing Rs. 1 million from the Indian aid and Rs. 0.2 million from the Treasury fund, and a request for financial provisions has been made for this purpose. Measures are being taken to complete the project as soon as the funds are received.

Action should be taken without delay to complete the construction of the incomplete houses and achieve the targets.

- (g) Under the loan schemes implemented by the National Housing Development Authority, as of 31 December 2024, the five-year overdue loan balance amounted to Rs. 3,321.671 million. This five-year overdue balance included Rs. 277.12 million from the 1000000 house programme implemented during 1984–1989 and Rs. 188.26 million from the 1500000-house programme implemented during 1990–1992, which were overdue for 30 years, respectively. Furthermore, when considered as a percentage of the loan amounts granted under each loan programme, the non-recovery rate ranged between 18 percent and 100 percent. Out of the total loan amount of Rs. 974.915 million granted under five loan programmes, not a single amount had been recovered as of 31 December 2024. Accordingly, it is observed that the recovery of housing loans by the Authority is at a very weak level. While the staff, including the District Manager, should have given special attention and acted accordingly during the granting and recovery of housing loans, the loan recovery activities were not carried out in a systematic manner. Furthermore, during the period 2015–2019, a loan amount of Rs. 4,279.7 million was released for Model Villages, however, as of 31 July 2024, the houses in 587 villages, totaling 11980 units, had not yet been handed over to the public.
- Regarding the loans from the periods 1984–1989 and 1990–1992, the District Offices have been informed to prepare a report on the loans that could not be recovered. Once the report is received, it will be submitted to higher management for necessary action and decision-making. In the year 2025, the District Offices have been instructed to recover the loans that are collectible. Efforts are being made to complete the Model Villages Programme, which was initiated during 2015–2019, as Treasury provisions are received.
- Action should be taken without delay to promptly recover the loans and achieve the relevant targets.
- (h) Under the Sevana Assistance Program, which was initiated in 1984 to provide relief to families of the poor, as well as families with members having special needs and exceptional abilities, 10 percent of the revenue from the Sevana Lottery Sales was allocated to the Sevana Fund. Accordingly, for the years 2022, 2023, and 2024, it was estimated that
- Under the Sevana Assistance Program, there was a noticeable shortfall in the referral of beneficiaries. Due to the economic crisis prevailing in the country, the prices of construction materials rose sharply and indefinitely, and similarly, labor wages also
- The funds allocated for the respective task should be effectively utilized to complete the unfinished houses, and all planned targets should be achieved without fail.

267, 474, and 440 houses, respectively, would be constructed, As at 31 December 2024, only 47, 29, and 30 houses, respectively, were completed from the estimated number of houses for each year. By the end of 2024, there were 90 incomplete houses remaining. Although funds were allocated each year for the incomplete houses, instead of utilizing these funds for their intended purpose, an investment of Rs.977 million was maintained until the end of the review year.

increased.

As a result, the cost of housing construction increased significantly, which directly affected the initiation of housing construction and the completion of houses under the Sevana Assistance Program for the vulnerable and disadvantaged population. Furthermore, the number of assistance requests received under the Sevana Assistance Program remained at a very low level. The delay in completing these houses within the scheduled timeframe was due to the fact that external contributions expected for the respective beneficiaries were not received on time, and it was not possible to provide the intended support to the beneficiaries within the stipulated period.

(i) The “Housing for All” loan program commenced on 1 January 2022 and was planned to be completed by 31 March 2024, under which 2004 houses were scheduled to be constructed. However, by 30 June 2024, a loan of Rs. 1,063.05 million had been disbursed, and only 691 houses had been completed. The progress was 35 percent, and as of that date, 1313 housing units remained incomplete.

During the year 2022, under the “Housing for All” loan program, construction of 4 houses was initiated using Treasury provisions, and 484 houses were initiated using internal provisions, out of which 483 houses were completed.

Action must be taken without delay to complete the incomplete houses and achieve the planned targets.

(j) By the end of 2020, under the Viru Sumithuru Project, which was implemented with the aim of providing suitable housing on a grant basis for 3650 families of fallen, disabled, or war-affected soldiers who were without homes, the funds disbursed up to 2019 amounted to Rs. 351.89 million for new

As of 31 December 2024, under this project, the housing needs of only 1,484 families had been fulfilled. Assistance funds were provided to eligible beneficiaries selected from among applicants in accordance with the amounts available

Necessary actions should be taken to achieve the planned targets and to collect the receivable funds.

houses and Rs. 547.54 million for semi-permanent houses.

As at 31 December 2024, the housing needs of only 1484 families had been fulfilled, leaving the housing requirements of 2166 war hero families unmet. Due to various reasons, assistance for 25 war heroes had been suspended, and the recoverable deficit amount for them was Rs. 7.315 million.

from the Treasury, while it was not possible to provide funds to the remaining applicants. Furthermore, due to the COVID-19 pandemic in 2020 and the resulting instability in the country, no funds were allocated from the Treasury. Consequently, it was not possible to provide funds to the remaining applicants as planned, which made it impossible to meet the housing needs of 2166 families.

3.3 Human Resources Management

Audit observation	Management Comment	Recommendation
(a) The authority should prepare an annual training plan in such a way that it enhances the knowledge and attitudes of the officers, while also improving employee efficiency and productivity. Here, although the annual training plan must be prepared by identifying the exact amount of funds that can be spent within a given year and including programs that can be implemented during that period in a way that benefits the institution, the Authority had prepared a training plan for the year 2024 that could not be implemented, and the estimated costs for the respective programs had not been included in that training plan.	Actions have been taken to prepare a training plan for the year 2025.	A training plan suitable for the Authority should be prepared, implemented, and properly monitored.
(b) Under external local training programs, 54 programs under 14 main subjects had been planned for implementation in 2024, but only 2 of those programs were actually carried out.	Under both foreign and local training programs, 54 programs under 14 main subjects had been planned for implementation in 2024, with an estimated training cost of Rs. 10 million. However, for the year 2024, only Rs. 6 million had been allocated based on the approved budget	Training programs should be properly planned and implemented in order to enhance the progress of those programs.

provisions. Accordingly, the number of programs should have been revised in relation to the allocated budget provisions. Based on this, during the year 2024, a total of 24 programs had been implemented 18 internal training programs, 2 external training programs, and 4 sovereign training programs and the expenditure incurred for these amounted to Rs.2.610 million. Accordingly, out of the approved budget allocation of Rs. 6 million, an amount of Rs.2.610 million has been spent as training expenses.

Furthermore, the number of beneficiaries who received training through this program is 1271.