

National Housing Development Authority

1. Financial Statements

1:1 Qualified Opinion

In my opinion except for the effects of the matters described in paragraph 1.2 of this report the consolidated financial statements give a true and fair view of the financial position of the National Housing Development Authority and its subsidiary as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:1:1 Preparation of Consolidated Financial Statements

The following observations are made.

- (a) The consolidated financial statements had been prepared on the basis of unaudited financial statements for the year ended 31 December 2011 of the Ocean View Development Company Limited which is the subsidiary company of the National Housing Development Authority and the net assets of the Subsidiary Company had been about 5 per cent of the net assets of the Authority.
- (b) Even though the 49 per cent of the total share capital of the Housing Development Finance Corporation Bank of Sri Lanka is owned by the National Housing Development Authority, the final financial statements of the Bank had not been consolidated with the accounts of the Authority as the Authority could not influence for any activities of the Bank.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

Although a provision of Rs.475.10 million had been made for the gratuity by the Authority as at the end of the year under review in terms of standard 16, only a sum of Rs.8.841 million had been invested externally to meet the future liability for the payment of gratuity but an investment to cover up the total liability had not been made.

1:2:2 Accounting Policies

Accounting Policies stated in the Financial Statements

According to the Note 10 to the accounts, the marked value of land which is acquired for the purpose of houses and without paying compensations and the expenditure incurred thereon should be transferred to a Land Acquisition Reserve Fund. Nevertheless, such a fund had not been shown in the financial statements.

1:2:3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (i) Lands, 943 hectares in extent acquired/obtained for housing schemes from blocks of lands remained further in several housing schemes had not been assessed and brought to account.
- (ii) Per value of bonus shares of Rs.276,500,000 issued on investment in the Housing Development Finance Corporation Bank had not been brought to accounts since 2002.
- (iii) The value of 5 motor cycles and a double cab received under GTZ project had not been estimated and brought to accounts.
- (iv) A sum of Rs.43.51 million received in respect of 2 completed projects had been continuously brought forward in the working progress account.

- (v) Sufficient provision had not been made for the loss of 08 motor cycles and a jeep valued at Rs.400,000 and Rs.112,864 respectively attached to the North and East District Offices.
- (vi) Despite the period of 5 years had lapsed after completion of the relevant purpose from the funds received from the Urban Development Authority and the National Livestock Development Board amounting to Rs.10.84 million it had been shown under deposits without being adjusted in the accounts.
- (vii) The under provision of bad and doubtful debts made in respect of the housing loans totaling Rs.2,479.59 million amounted to Rs.53.74 million during the year under review.

1:2:4 Inappropriate Disclosures

Although the retention money had been released to the contactor after being settled the house beneficiaries in the completed houses relating to the stage 4 of the 797 estate at Maradana during the year under review, a payable expense of Rs.2,886,906 had been shown in the working progress account. The General Manager of the Authority had informed me that as the contractor had abandoned the other projects half way undertaken by the contactor, this money had been shown under this project in order to set off the money against the advances of those projects.

1:2:5 Unexplained Differences

Although, a sum of Rs.8,863 shown in the financial statements of the National Housing Development Authority as advances payable to the Housing Authority from the Condominium Management Authority, the amount shown in the financial statements of the Condominium Management Authority as payable amounted to Rs.1,229,974. Accordingly a difference of Rs.1,221,111 was observed.

1:2:6 Accounts Receivable and Payable

The following observations are made.

- (a) The accuracy of the debtor balances of Rs.54.67 million shown in the accounts of the Authority as receivable from the Urban Development Authority and the Central Environment Authority had not been agreed upon with the relevant Institution and the Ministry of Housing and Common Amenities had informed that the loan balance of Rs.64.71 million due from the Ministry could not be reimbursed. As such, the recoverability of this loan had been uncertain and a sufficient provision for bad debts thereon had also not been made.
- (b) Sundry debtor balances as at 31 December 2011 amounted to Rs.1,623.69 million and it included debtor balances totaling Rs.1,356.49 million remained for more than 03 years. The authority had not taken any effective action to recover those balances.
- (c) An overprovision of Rs.31.22 million had been made in the year 2011. It was observed that proper attention had not been paid in respect of the age analysis and the recoverability of debts in making provision for doubtful debts.

1:2:7 Transactions of Contentious Nature

The following observations are made.

- (a) Three Hundred and ninety five houses valued at Rs.562.48 million constructed and completed under Jalthara project had been handed over to the Housing Development Bank without signing an agreement and no explanation had been given in respect of this transaction. Thus the profit on this transaction amounting to Rs.215.89 million had also not been adjusted to the accounts of the Authority.
- (b) The Land bearing block No.51 reserved for common amenities in the Mattakkuliya Crow Island Seebris Housing Scheme had been sold for a business purpose and it had not been in conformity with the objectives of the Authority.

2. Financial Review

2:1 Financial Results

Operating activities of the Authority and the financial results of the Subsidiary Company for the year under review as compared with the last 4 years as per the financial statements are given below.

Institution	2011	2010	2009	2008	2007
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	Rs.Mn.	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Deficit of the operating activities of the Authority	(518.29)	(666.73)	(502.66)	(646.74)	(784.75)
Profit of the Ocean View Development Authority	11.01	9.62	12.47	15.7	26.68

2:2 Analytical Financial Review

Due to incurring drastically losses continuously during the last 5 years the net assets had been diminished by 11 per cent and as such the Going Concern of the Authority under this circumstance had become critical.

2:3 Working Capital Management

Current ratio and the liquidity ratio of the Authority in the year 2010 and the year under review had been 1:0.99 and 1:1.02 and 1:0.90 and 1:0.92 respectively and the standard ratio shall be 2:1 and 1:1 respectively.

3. Operating Review

3:1 Performance

The following observations are made.

- (a) According to the action plan, the physical houses planned to be constructed during the year amounted to 55,587. But the actual constructions were 14,278 houses thus showing a progress of about 26 per cent. However, according to the revised action plan approved on 29 November 2011 the construction progress was 46 per cent.
- (b) According to the action plan, it was planned to construct 3,800 housing units but it was not stated in the revised action plan.
- (c) Although it was planned to construct 1,270 housing units valued at Rs.3,235 million under the “Sahasra Lanka” (Investment projects, private and public contributory houses) Project. Any construction work had not been commenced during the year under review. The General Manager of the Authority had informed me that the construction work of 3 projects had been commenced by 31 August 2012.

3:2 Management Inefficiencies

The following management inefficiencies were observed.

- (a) As pointed out in the previous Auditor General’s reports it was revealed that the integrated project with the private sector participation relating to the land, 01 acre and 26.5 perches in extent in the Darly Road had incurred an estimated loss of Rs.1,000 million due to non-adoption of good management practice. According to a discussion had with a Senior Legal Consultant of the Cabinet of Ministers in this regard, the freehold right of government lands should not be transferred but the Authority had given the freehold title deeds of the land to the relevant company. The General Manager of the Authority had informed me in this regard that it was recommended that giving right of foreclosure for the restitution of property keeping the deed of property in bank in Sri Lanka as a guaranteed trust as the freehold deed had been already given.

- (b) Although the building plans should be approved by the relevant local authorities before the housing schemes are constructed, houses had been constructed without being complied with it and as such difficulties had arisen to obtain the certificate of conformity for 3509 houses in 141 housing schemes as at the end of the year under review. Although a Cabinet memorandum had been prepared only for 3,357 houses out of them, and sent for approval on 12 August 2011, the necessary approval had not been obtained even by the end of the year under review. Under these circumstances, Management Corporations could not be established after transferring the houses to house owners in the housing schemes and as such the maintenance activities of those housing schemes had been continuously carried out by the Authority. A sum of Rs.24.61 million for the maintenance and Rs.84.03 million for repairs had been spent during the year under review.
- (c) 229.4 acres of lands with constructions done by encroachers within the properties of the Authority in 19 Districts had been identified as at the end of the year under review out of which the extent of land possessed for more than 10 perches amounted to 187.7 acres. The extent of land less than 10 perches which could be regularized amounted to 22.6 acres and 19.1 acres had been utilized for cultivation. The General Manager informed me that a scheme to regularize the encroachers who could be regularized and to regularize the other encroachers in terms of Circular No. 99/2 dated 17 December 1998 had been presented to the Ministry.
- (d) The balance of loans granted during the period 1989 to 1994 to acquire solar power to 526 families in Kurunegala District amounted to Rs.4,248,206 as at 31 December 2011. But not any money had been recovered during the year under review. A specific procedure had not been adopted to recover these loan balances.
- (e) In selling the Liberty Plaza circuit bungalow belonging to the Authority to a private institution the value of the Government Valuer had not been obtained, instead only the valuation of the Authority's Valuer had been obtained. However, according to the valuation of the Government Valuer obtained subsequently amounted to Rs.11,520,000 but the amount paid by a private institution amounted to Rs.9,000,000. This matter had been

discussed at the meeting of the Committee On Public Enterprises met on 14 October 2011. According to the order of the Committee it was informed that a report in this regard should be submitted within 3 months, but action had not been taken in respect of this direction even by 31 May 2012.

- (f) The land on Kirimandala Road belonging to the Authority had been sold to an ECO Housing Project in the year 2003 for Rs.75 million without a valuation of the government valuer. The approval of the Cabinet of Ministers had not been obtained, thereon and according to the valuation of the Government Valuer dated 10 February 2007 the assessed value was Rs.121.5 million. Even though the Committee On Public Enterprises met on 14 October 2011 had directed to submit a detailed report in this regard, it had not been complied with even up to 31 May 2012.

- (g) Although the Mahayiawa Housing Project consisting of 32 houses had been constructed by the Authority in the land belonging to the Kandy Municipal Council by incurring construction cost of Rs. 20 million, action had not been taken to reimburse this money from the Kandy Municipality even up to the end of the year under review.

3:3 Operating Inefficiencies

The following operating inefficiencies were observed.

- (a) Three houses in Homagama Jalthara and Diyawanna Gardens Housing Schemes belonging to the Authority had been released to 3 persons for occupation outside the system of distribution of houses, without any agreement and even without obtaining any advances.

- (b) Sixteen houses had been constructed by incurring an expenditure of Rs.2.67 million from 1998 to 2001 by the Kandy District Office in the Galaha Housing Scheme but the construction works of those houses had not been completed even by the end of the year under review.

- (c) A sum of Rs.1.355 million had been released to the Plantation Human Development Trust for Millakanda and Procester Estate Project under Estate Housing Programme by the Ministry of Nation Building and Estate Infrastructure Development during the year 2008 but the relevant project had not been implemented and a sum of Rs.599,000 was still due.
- (d) Lands acquired/ to be acquired from the Public and Private Sectors for housing purposes amounted approximately 5,931 hectares but the register of lands relating to these lands had not been updated even by the end of the year under review. It was observed that many lands had been encroached. The General Manager informed me that information relating to Northern and Eastern provinces was not included in this report as the lands could not be specifically identified due to war-environment prevailed in those provinces.
- (e) Due to non-payment of compensation to lands acquired during the period 1979-2010 on time as a result of administrative delays the value of compensation payable for private lands as at 31 December 2011 amounted to Rs.93.12 million and interest of Rs.65.16 million thereon had to be paid by the Authority. Similarly, a further sum of Rs.33.60 million had to be paid for lands acquired by the Land Reforms Commission.
- (f) As the assessment computed at a later year after several years from the date of acquisition of many lands, a huge loss had been incurred by the Authority and that assessed value also could not be paid.

Name of Land	Year of acquisition	Year of assessment	Value of assessment
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			Rs.
Kurakkane Watta	1995	1999	2,000,000
Swashakthigama	1981	1999	1,850,000

- (g) The overpaid amount of VAT totaling Rs.14,381,122 paid by the Authority relating to the years 2003, 2004 and 2005 had not been recovered or set off.

- (h) According to the letter dated 03 June 2011 of the Department of Inland Revenue, the arrears of VAT and its fines relating to the years 2009 and 2010 amounted to Rs.24,775,876 and Rs.3,251,381 respectively and action had not been taken to settle them even by 15 June 2012.

3:4 Control Over Housing Loans

The following observations are made.

- (a) According to the accounts a debtor balance and a capital balance of Rs.2,479.58 million and Rs.4,734.80 million respectively in the housing loan programme had existed as at the end of the year under review, as compared with the end of the previous year amounting to Rs.2,647.34 million and Rs.2,558.3 million respectively.
- (b) As the Authority had considered 50.78 per cent of the total debtors in deciding the budgeted recovery amount, it was observed that it was a management weakness on loans.

3:5 Uneconomic Transactions

The following observations are made.

- (a) Although 10 years had elapsed after being invested a sum of Rs. 5 million in an associated company any return thereon had not been received by the Authority as that company had not declared dividends.
- (b) A loan of Rs.250 million had been obtained from the President's Fund in the year 1991 by agreeing the repayment with an annual interest of 15 per cent. Loan instalment and the interest thereon had not been paid regularly and the capital balance paid as at the end of the year under review amounted only to Rs.55 million. Accordingly, the capital balance of the loan and the interest thereon payable as at 31 December 2011 amounted to Rs.195 million and Rs.228.16 million respectively. As such a high rate of interest is being paid for the loan obtained from the Presidents Fund and adequate steps had not been taken even to reduce the rate of interest.

- (c) After incurring an expenditure of Rs.39.9 million by the Authority in the year 2005 to construct the Orugodawatta Building complex in a land belonging to the Urban Development Authority, the construction works had been abandoned and thereafter the Real Estate (Pvt.) Ltd. had initiated preliminary works to construct the housing complex by March 2006 but the work of that project had also been abandoned now. Even though the relevant company had discussion with the Urban Development Authority to get back the expenditure incurred by the Authority to construct this complex and had come to an agreement, this money had not been refunded by the Urban Development Authority even by the end of the year under review.
- (d) The Authority had earned a sum of Rs.45.34 million as rent during the year under review, out of which a sum of Rs.24.61 million had been spent as maintenance expenses as a result of non-transfer of these housing schemes to Management Corporations.
- (e) The expenditure amounting to Rs. 43 million incurred in 2 housing schemes which had been abandoned after doing a part of work due to various reasons had been brought to accounts as work in progress.
- (f) The construction expenditure of Rs.1,106,176 incurred in Galle District Office had been shown under work in progress. However, the construction work of that District office had been stopped half way.

3:6 Identified Losses

The following observations are made in that regard.

- (a) Housing loans of Rs.5,965,000 granted under Co-operative Societies Housing Loan Scheme by the Jaffna District Office could not be recovered by the Authority due to misplace of files in respect of 1468 housing loans. Adequate legal action had also not been taken by the Authority. The General Manager informed that as the files were misplaced any legal action could not be instituted.

- (b) Few floors of the National Housing Authority building had been rented out to the Housing Development Finance Corporation Bank and the rates as per the assessment of lease rent prepared as at 02 March 2007 had been reduced by the assessment made on 01 January 2008 without adducing any reasons. As such a rent income of Rs.18,083,200 had been deprived of the Authority up to the end of the year under review.
- (c) A sum of Rs.76.07 million had been spent for the Avissawella Manikkawatta Housing Project by the end of the year 2007, and 75 incompleted houses had been handed over to the Housing Development Finance Corporation Bank for completion and sale.. An agreement had not been entered with the Bank in this regard and a sum of Rs.43.925 million had been paid by the Bank by the end of the year under review. As such a sum of Rs.32.14 had been lost from this housing project.

3:7 Weaknesses in Contract Administration

The following observations are made.

- (a) In selling houses under pre-sold basis, the sale should be initiated at the time of planning the houses itself, and the sufficient money for it should be recovered from the buyer of the house. However, the amount of money received from applicants of 08 houses of the 117 garden, stage iv of Elvitigala Mawatha at the time of planning had been less than 01 per cent of the value of house. A sum of Rs.4.97 million was due for 4 houses handed over to the Ministry of Foreign Affairs and 2 houses valued at Rs. 15.2 million had been reserved by obtaining advances of Rs.50,000 and Rs.1,000,000 but no agreement had been entered into and the balance money had not been recovered for more than 2 years.
- (b) Although it was planned to construct 770 houses subject to a Rs. 100 million estimate by the Sahasra Lanka Housing Project only action had been taken only to commence one housing project proposed to be constructed 4 houses and re-construction of 05 houses partly completed at the Yakkala Siyane Garden which had been commenced and abandoned by the contractor in the year 2007 . The physical progress of this as at the end of the year under review ranged from 5 to 35 per cent.

- (c) An estimate for Rs.255 million had been presented for the repair of Condominium properties of the Authority and a sum of Rs.230 million of it had been received from the Treasury during the year under review out of which a sum of Rs.76.54 had been spent during the year under review. Although the contract had been awarded to the State Engineering Corporation to renovate the Maligawatta Housing Project under this project commencing on 05 April 2011 and to be completed as at 12 April 2012. However, renovations had not been completed even by the date of audit on 15 June 2012.

3:8 Resources of the Authority given to the other Public Institutions

Contrary to the provisions in paragraph 9.4 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the salaries paid to the 14 officers/employees released to the other institutions as at the end of the year under review amounted to Rs.3.42 million. 07 motor vehicles to the Line Ministry and 05 motor vehicles to the State Engineering Corporation had been released.

3:9 Personnel Administration

Name of Post	As at 31 December 2011			No. of Vacancies
	Approved Cadre	Actual Cadre	Excess Cadre	
Senior Executives	17	07	--	10
Middle Level Management	97	67	--	30
Junior Level Management	143	94	--	49
Management Assistants	913	1,271	358	--
Primary	206	409	203	--
Total	1,376	1,848	561	89

The following observations are made.

- (a) According to the human resource plan of the Authority the approved cadre had been stated as 2493 but the cadre approved by the Department of Management Services on 01 July 2010 was 1,376.
- (b) The actual cadre as at 31 December 2011 was 1,848 and as such it was observed that there were 561 employees in excess of the approved cadre. This excess cadre had included 86 officers who had been recruited on contract and daily paid basis and 161 officers recruited on 31 May 2012. The Authority had paid Rs.16,730,328 as basic salaries to all of those employees.
- (c) Contrary to Section 9.3.1 of the Public Enterprises Circular No. PED/12 of 03 June 2003, 18 officers had been employed in acting posts for the period from 01 month to 09 years for more than 03 months.

4. Accountability and Good Governance

4:1 Corporate Plan

Although the Authority had prepared a Corporate Plan for the period 2011-2015, in terms of paragraph 5.1.2 of Public Enterprises Circular No. PED/12 of 02 June 2003 as amended by Circular No. PED/47 dated 18 December 2007;

- (i) Activities of the Corporate Plan did not state the relationship between the action plan and the budget.
- (ii) Operating activities had not been presented by reviewing the operations of the last 3 years.
- (iii) A report on the progress of the fulfillment of functions stated in the corporate plan at the end of each year and the evaluation of sections which were not operated and slackness divisions and future actions had not been prepared and the attention of the Board of Directors thereon had not been drawn.

4:2 Internal Audit

The following observations are made in respect of the Internal Audit.

- (i) Certain district offices had not been subjected to audit for several years.
- (ii) Assignments included in the annual audit programme did not pay sufficient attention on the performance audit.

4:3 Budgetary Control

According to the financial statements presented, as compared the actual income and expenditure amounting to Rs.723.96 million and Rs.1,172.78 million respectively with the budgeted income and expenditure amounting to Rs.929.55 million and Rs.1,192.71 million respectively, differences of Rs.205.59 million and Rs.19.93 million were observed. Accordingly, the budget had not been made use of as in effective instrument of management control.

5. Systems and Controls

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

- (a) Granting loans
- (b) Receipt books
- (c) Stores
- (d) Contracts
- (e) Advances
- (f) Personnel
- (g) Cash at Bank
- (h) Computation of VAT

