

National Housing Development Authority

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the National Housing Development Authority had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:1:1 and 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the National Housing Development Authority and its subsidiary as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1:1:1 Preparation of Consolidated Financial Statements

The following observations are made.

- (a) The Consolidation Financial Statements had been prepared on the basis of the unaudited financial statements relating to the year ended 31 December 2010 of the Ocean View Development Company Limited which is the Subsidiary Company of the National Housing Development Authority.
- (b) In terms of the decision of the Cabinet of Ministers dated 04 December 1991, the National Equipment and Machinery Institution had been established as a Project under the National Housing Development Authority. Accordingly the financial statements of the National Equipment and Machinery Institution for the year ended 31 December 2010 had been consolidated with the financial statements of the National Housing Development Authority.
- (c) Out of the total share capital of the Housing Development Finance Corporation Bank of Sri Lanka, 49 per cent is owned by the National Housing Development Authority. Nevertheless, the financial statements of the Bank had not been consolidated with those of the Authority in terms of Sri Lanka Accounting Standard No. 27 as the Authority is unable to exercise an adequate control over the activities of the Bank.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The following instances of non-compliance with Sri Lanka Accounting Standards were observed.

- (a) Even though the post balance sheet date events should be disclosed in the financial statements in terms of Sri Lanka Accounting Standard No. 12, the approved of the Cabinet of Ministers granted under the Cabinet Paper No.11/0089/517/004 dated 26 January 2011 for the transfer of the National Equipment and Machinery Institution established as a Project of the Authority and all the assets and liabilities thereof to the State Engineering Corporation had not been disclosed.
- (b) Even though the Authority and the National Equipment and Machinery Institution had made provisions for gratuity amounting to Rs.454.87 million and Rs.72.64 million respectively as at the end of the year under review in terms of Sri Lanka Accounting Standard No. 16, a sum of Rs.7.977 million only had been externally invested to meet the future claims for the payment of gratuities..

1:2:2 Accounting Policies

The following observations are made in this connection.

- (a) According to Note No. 3 to the accounts, the basis for the computation of the stock of the Authority and the National Equipment and Machinery Institution had been stated as the First In First Out System. Nevertheless the National Equipment and Machinery Institution had computed the stock on the weighted average system thus resulting in a stock variance of Rs.1,221,206.
- (b) According to Note No. 10 to the Accounts, in the acquisition of lands without paying compensation and for a housing objective, lands with a market value of Rs.234,420,998 and the preliminary expenditure incurred thereon should have been transferred to a Land Acquisition Reserve Fund. Nevertheless, such Reserve Fund had not been disclosed in the financial statements.

1:2:3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) According to the records of the Property Division, the value of lands belonging to the Authority with an extent of about 943 hectares had not been assessed and brought to account.
- (b) Adequate provision had not been made in the financial statements for the damage caused by the loss of 08 items of the machinery of the National Equipment and Machinery Unit valued at Rs..7,847,054.
- (c) The sales value of two houses amounting to Rs.3,265,000 had been taken into account as Rs.2,183,993 and the cost of 01 house had not been taken into consideration in the computation of the sales profit of Himbutana Uyana Houses.
- (d) The value of 05 motor cycles and a double cab motor vehicle received under the GTZ Project had not been estimated and brought to account.
- (e) A sum of Rs.46.67 million received in connection with 03 completed Projects had been carried forward in the creditors ledger instead of being adjusted against the cost.
- (f) The cost of sales of lands and houses valued at Rs.0.84 million of the District Office, Gampaha had not been identified and as a result, it had been shown under provisions in the financial statements since the year 2008 without being adjusted to the project.
- (g) The insurance indemnity receivable in the year under review had been overstated by a sum of Rs.177,622.
- (h) A sum of Rs.10.84 million received from the Urban Development Authority and the National Livestock Development Board for incurring the cost of construction of houses had been shown under the deposits without making necessary adjustments in the accounts despite the elapse of over 05 years.

- (i) A sum of Rs.5.15 million received from the General Treasury for the acquisition of lands had been brought to account as deposits received for construction costs.
- (j) A sum of Rs.2.67 million spent in the year 2009 for the Galaha Housing Scheme had been debited to the Deposits Account. Nevertheless, such a scheme had not been implemented.
- (k) Depreciation had not been provided for in the year under review for the fixed assets valued at Rs.986,769,757 received as grants under aid from Japan to the National Equipment and Machinery Unit.
- (l) The value of 08 motor cycles and a Jeep lost by the 02 District Offices of the North and the East amounted to Rs.400,000 and Rs.112,864 respectively and adequate provision had not been made in that connection.

1:2:4 Inappropriate Disclosures

The following observations are made

- (a) Even though the expenditure on 03 Housing Schemes, abandoned after part completion due to various reasons, amounting to Rs.47 million had been brought to account as work-in-progress, that account had not been shown in the accounts as receivables from the REAL Company.
- (b) The sales value of lands and the value of houses where sales had been completed amounting to Rs.1,010.38 million and Rs.135.66 million respectively had been brought to account as the Land Sales Deposits and Housing Sales Deposits respectively. The Chairman informed that the adjustments would be made in the accounts after the identification of costs.
- (c) A sum of Rs.1,106,176 had been shown under the work-in-progress in connection with the expenditure on the construction of buildings for the District Office, Galle. Nevertheless, the construction of that District Office had been abandoned halfway.

- (d) The construction costs of completed projects totalling Rs.5.53 million had been shown under the work-in-progress without being transferred to the assets accounts.

1:2:5 Accounts Receivable and Payable

The following observations are made.

- (a) Concurrence had not been reached with the respective institutions with regard to the accuracy of the debtors balances totalling Rs.54.63 million shown in the accounts. The Ministry of Housing and Common Amenities had informed that debtors balances amounting to Rs.51.8 million could not be reimbursed.
- (b) A sum of Rs.1,355,000 remaining from the money received from the Ministry of Nation Building and Estates Infrastructure for the grant of loans under the Estates Housing Programme of the District Office, Kalutara had been retained over a period of 03 years without being paid to the Estate Housing Programme.
- (c) The debtors balance as at 31 December 2010 amounted to Rs.1,669,695,942 and the Authority had not taken action to recover debtors balances older than 03 years amounting to Rs.504,222,572.

1:2:6 Lack of Evidence for Audit

The following 02 items of accounts valued at Rs.942.82 million could not be satisfactorily vouched in audit due to the non-submission of documentary evidence relating to them.

Item of Accounts -----	Value Rs Million -----	Evidence not made Available -----
National Equipment and Machinery Organization		
(a) Grant Assets	937.44	Schedules
(b) Advances	<u>5.38</u>	Age Analysis
Total	942.82	
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1:2:7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Public Administration Circular	

Public Administration Circular No 9/2007 of 11 May 2007.	In the re-employment of retired Officers, the circular specifies that 50 per cent of the last drawn salary should be paid as an allowance. Nevertheless, a sum of Rs.2,707,028 had been overpaid in the year under review to 43 officers.
(b) Establishments Code	

Chapter II Section 13.1(b)	Even though the approval of the appointing authority is required for making appointments for acting in a post, such approval had not been obtained in connection with 43 officers.
(c) Employees' Provident Fund Act, No 15 of 1958 Section 16	The surcharge of Rs 1,578,964 imposed for the delay in the remittance of the contributions payable in respect of the year under review by the National Equipment and Machinery Organization had not been paid up to 31 December 2010.

1:2:8 Transactions not Supported by Authority

Out of the sum of Rs. 45 million received from the General Treasury for repairs and improvements of condominium properties, a sum of Rs. 10.9 million had been spent on the sanitation work and maintenance (operation) of pump houses of housing schemes due to the non-establishment of Management Corporations.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

According to the financial statements, financial results of the affairs of the Authority, the Equipment and Machinery Unit and the Subsidiary for the year under review as compared with the 04 preceding years are given below.

Institutions	2010	2009	2008	2007	2006
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	Rs.(Millions)	Rs.(Millions)	Rs.(Millions)	Rs.(Millions)	Rs.(Millions)
Operating Loss of the Authority	(666.73)	(502.66)	(646.74)	(784.75)	(2,054.88)
Operating Loss of Machinery Unit	(98.15)	(68.25)	(94.46)	(109.55)	(173.64)
Profit/(Loss) of Ocean View Development Company	9.62	12.47	15.7	26.68	(13.48)

2:1:2 Analytical Financial Review

The following observations are made in this connection.

- (a) The Authority had continuously incurred huge losses during the past 05 years resulting in the decrease of net assets by 38 per cent. In view of this position it was observed that the going concern of the Authority is facing a risk.
- (b) The current ratios of the National Equipment and Machinery Unit remained at 1:3.25 while the quick assets ratio remained at 1:7.04. As such the going concern of this Unit had become problematic.

2:1:3 Transactions of Contentious Nature

The following observations are made.

- (a) The Authority had handed over 395 completed houses under the Jalthara Project valued at Rs.562.48 million to the Housing Development Finance Corporation Bank of Sri Lanka without entering into an agreement.
- (b) Despite the availability of a Survey Division with 10 officers in the Authority, a sum of Rs.3,723,742 had been paid in the year under review as survey fees to external professionals. The Chairman informed me that the surveys had been done through external parties as an adequate staff was not available to carry out surveys.
- (c) Even though a period exceeding 10 years had elapsed after the release of the Toyota Land Crusher Motor Vehicle costing Rs 3,150,000 for the use of the Ministry of Health, action had not been taken for the recovery of the cost incurred thereon or the motor vehicle.
- (d) Even though the construction of 60 houses under the Etnawala Special Housing Project had been awarded to the Red Crescent Unit of Saudi Arabia, an agreement had not been entered into. Even though the assessed value of a perch of land amounted to Rs.7,293 action had been taken to offer lands at Rs.5,000 per perch.

- (e) The block of land bearing No.51 allocated for the common purposes of the Sea Breeze Housing Scheme, Crow's Island, Mattakkuliya had been sold to be used for a business purpose and it was an act contrary to the objectives of the Authority.
- (f) The balances of clients advances, the client creditors and the client debtors relating to the accounts of the Authority did not reconcile with the balances of the accounts of the Condominium Management Authority and the National Equipment and Machinery Unit respectively and as such a difference of Rs.51.77 million was observed. The Authority had not taken steps to identify the differences and make necessary adjustments in the accounts.

2:2 Operating Review

2:2:1 Performance

The following observations are made.

- (a) The activities of Direct Construction of Housing Programme had not been done during the year under review and its targeted physical performance and the financial performance had been 88 units and Rs.187.60 million respectively.
- (b) The actual performance of the Estates Housing Programme, confirmation of title of properties and repairs to the Condominium Housing Schemes implemented during the year under review had been less than 50 per cent of the targeted performance.
- (c) Even though the approval of the Cabinet of Ministers had been granted for the commencement of 09 Housing Projects, only 02 Projects had been commenced even up to the end of the year under review. The Authority had lost an income from 1,050 housing units as action had not been taken to commence the work on 07 Projects despite the elapse of a period exceeding 03 years.

2:2:2 Projects Control

The following observations are made in this connection.

- (a) Even though the construction of 08 houses of the 117 Garden, stage iv of Elvitigala Mawatha on the pre-sale basis should have been completed in the year 2008, the work had not been completed even by the end of the year under review while the buyers had also not been selected for 02 houses.
- (b) Even though the approval of the Cabinet of Ministers had been granted under the Cabinet Paper of the year 2005 for the construction of 50 houses for the Pallekele Housing Project, agreement had been entered into for the construction of only 25 houses. Work on 11 houses only had been completed even by the end of the year under review.
- (c) According to clause 17 of the Project Agreement for the construction of 72 housing units of the Siyane Uyana, the Project work should have been completed in the year 2009 while only 05 houses had been completed by the end of the year under review.

2:2:3 Management Inefficiencies

The following management inefficiencies were observed.

- (a) The Committee on Public Enterprises had directed at the meeting held on 31 August 2003 that action in terms of the provisions of the Public Properties Act should be taken for the recovery of the outstanding debtors balances of the National Equipment and Machinery Unit and to take action against the Officers responsible for those arrears. Nevertheless, an outstanding debtors balance of Rs.197.86 million remained even as at the end of the year under review. The Chairman informed me that legal action for the recovery of debts was not taken as the National Equipment and Machinery Institute did not have the legal status during the period of 1992 to 31 January 2010 for taking legal action.

- (b) As pointed out in the reports of the Auditor General for the preceding years, an estimated loss of Rs.1,000 million had been incurred due to the failure to follow a good management practice for the joint project implemented with the participation of the private sector for the development of the land of 01 acre 26.5 perches in extent situated at Darley Road. A formal inquiry thereon had not been conducted in the year under review as well. The Chairman informed that the Commission to Investigate Allegations of Bribery and Corruption is conducting an investigation into this land.
- (c) The approval for housing plan should be obtained from the respective Local Authorities before the commencement of the construction work on Housing Schemes. Nevertheless, construction work had been done without such approval and as such problems had arisen by the end of the year under review in obtaining the conformity certificates on 3,509 houses of 141 Housing Schemes. As such it had not been possible to establish the Management Corporations and the Authority had to spend a sum of Rs.21.97 million in the year under review as well on the maintenance work of those Housing Schemes.
- (d) Out of the properties of the Authority in 08 Provinces, lands of 208.74 hectares in extent with unauthorized constructions had been identified by the end of the year under review. Adequate steps had not been taken to settle the title to those properties.
- (e) The balance of the loans granted to 526 families, in Kurunegala District for the purchase of Solar Power Systems, as at 01 January 2010 amounted to Rs.4,248,706 and a sum of Rs.500 only had been recovered in the year 2010. The Authority did not have any definite arrangements for the recovery of those loans.

2:2:4 Operating Inefficiencies

The following observations are made in this connection.

- (a) The turnover of 21 Depots and 05 work sites of the National Equipment and Machinery Organization amounted to Rs.106.25 million while the expenditure on operations and maintenance amounted to Rs.145.11 million. Three Depots and 01 Work Site had not earned any income during the year under review.

The Chairman informed that the machinery of the Organization were about 18 years old and their maintenance cost remaining at a very high level had been the reason for the operating and maintenance costs to exceed the turnover.

- (b) The extent of lands acquired or awaiting acquisition from the Government and the private sectors for housing purposes had been 4.948 hectares approximately. The Register of Lands in connection with such lands had not been updated even by the end of the year under review. It was observed that most of the lands had been encroached.
- (c) The National Housing Development Authority and the National Equipment and Machinery Organization had not taken action to recover or to set off taxes amounting to Rs 14,381,122 and Rs.9,589,970 respectively from the Department of Inland Revenue in the year review.
- (d) The National Housing Development Authority and the National Equipment and Machinery Organization had not taken action even by the end of the year under review to pay taxes amounting to Rs.15,028,977 and Rs.41,269,298 respectively to the Department of Inland Revenue.

2:2:5 Housing Loans Control

- (a) National Housing Development Authority
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According to the accounts as at the end of the year under review the debtors balance and the loan capital amounted to Rs.2,647.52 million and Rs.2,558.32 million respectively as compared with the balances of Rs.2,738.32 million and Rs.2,647.52 million respectively as at the end of the preceding year. The following observations are made in this connection.

- (i) The actual recoveries during the year under review amounted to Rs.811.46 million and it represented 65 per cent of the budgeted amount. Similarly the actual recoveries represented a very low of 30.64 per cent of the total debtors.

- (ii) The Authority had taken into consideration of 46.83 per cent of the total debtors in determining the budgeted amount of recoveries and that was observed as a management weakness.
- (iii) Even though a cost of Rs.5 had been spent on the recovery of Rs.100 of loans, the debtors older than 03 years represented 88 per cent of the total debtors. The percentage of recovery of those loans in the year under review as compared with the preceding year amounted only to 2 per cent.

(b) National Equipment and Machinery Institution

- (i) Adequate steps had not been taken in the year under review as well for the recovery of the outstanding debts amounting to Rs.197.86 million.
- (ii) The total service debtors balance amounted to Rs.197.86 million and 76 per cent of that had been older than 05 years while a provision of Rs.171 million had been made as bad and doubtful debts. That represented 86 per cent of the total debtors.

2:2:6 Uneconomic Transactions

The following observations are made.

- (a) The loan payable to the President's Fund as at the end of the year under review amounted to Rs.195 million and the total interest payable thereon at 15 per cent per annum amounted to Rs.198 million. The Authority had not taken action to settle this loan on which it pays a high rate of interest.
- (b) The construction of the building complex at Orugodawatta had been abandoned after spending a sum of Rs.39.9 million on the project. Action had not been taken even up to the end of the year under review to recover that money.

2:2:7 Supply of Resources of the Authority to other State Institutions

The Authority had spent a sum of Rs.1.28 million in the year under review as the salaries and allowances of 10 employees released to the line Ministry contrary to the provisions of Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003 while 03 motor vehicles had been released to the line Ministry. Five motor vehicles and 01 motor vehicles had also been released to the State Engineering Corporation and the Ministry of Health and Nutrition respectively.

2:2:8 Idle and underutilized Assets

The following observations are made.

- (a) Four buildings of the District Office, Maligawatta had not been used during periods ranging from 1 ½ to 05 years. One of those building had been dilapidating due to non-use. The Chairman informed that it was due to the housing beneficiaries not responding to the establishment of Management Corporations.
- (b) Even though the operations of 01 Work Site and 05 Depots of the National Equipment and Machinery Institutions had been completely stopped in the year under review, a sum of Rs.19,174,272 had been spent on the employees salaries and maintenance expenditure of those work sites and Depots.

2:2:9 Identified Losses

The following observations are made in this connection.

- (a) The files relating to 1,468 loans amounting to Rs.5,965,000 granted by the District Office, Jaffna under the Thrift Credit Co-operative Societies Hosing Loan Scheme had been misplaced and as such the Authority had not been able to recover those loans. The Chairman informed that it was due to the civilian community leaving the area due to the war.

- (b) Several floors of the building of the National Housing Development Authority had been rented out to the Housing Development Finance Corporation Bank of Sri Lanka and the Authority had been deprived of a cumulative lease rent income amounting to Rs.13.29 million up to the end of the year under review due to the reduction of the original lease rent assessment.
- (c) The Authority had spent a sum of Rs.76.07million in the year 2008 for the construction of 100 houses under the Avissawella Manikkawatta Project and 75 of those houses had been given for sale to the Housing Development Finance Corporation Bank of Sri Lanka without entering into an agreement. Action had not been taken even up to the end of the year under review to enter into an agreement. A sum of Rs.41.2 million only had been requested from the Bank in this connection and as such a loss of Rs.20.2 million had been incurred by the Project.

2:2:10 Human Resources Management

According to the Human Resources Plan of the Authority, the approved cadre stood at 2,493 whereas the cadre approved by the Department of Management Services had been only 1,376. Nevertheless, the actual cadre as at the end of the year under review had been 1,990. Thus, the existence of 614 employees exceeding the approved cadre was observed.

2:2:11 Corporate Plan and Action Plan

According to the Public Enterprises Circular No. PED/12 of 02 June 2003 as amended by the Circular No. PED/47 of 18 December 2007, the Authority had prepared a Corporate Plan and an Action Plan for the achievement of its goals, Nevertheless, it had not been updated. A reconciliation of the Corporate Plan and the Action Plan for the year under review revealed differences of 4,774 units and Rs.1,612.10 million between the physical and financial data respectively on the targeted programmes.

2:2:12 Internal Audit

Several areas included in the Audit Programme for the year under review had not been subjected to audit while certain District Offices had not been subjected to audit during several past years.

2:2:13 Budgetary Control

A reconciliation of the actual income and expenditure amounting to Rs.444.23 million and Rs.1,030.08 million according to the financial statements presented by the Authority with the budgeted income and expenditure amounting to Rs.871.84 million and Rs.1,070.68 million revealed differences amounting to Rs.427.61 million and Rs.40.6 million in the income and expenditure respectively, thus indicating that the budget had not been made use of as an effective instrument of management control.

3. Systems and Controls

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

- (a) Grant of Loans
- (b) Receipt Books
- (c) Stores
- (d) Contracts
- (e) Advances
- (f) Staff
- (g) Cash at Bank
- (h) Computation of Value Added Tax