

## **National Housing Development Authority - 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Housing Development Authority and its subsidiary for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Provisions of the 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 National Housing Development Authority and its subsidiary as at 31 December 2018, 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**

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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 (SLAUS). 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**

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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

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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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Non - Compliance with the Sri Lanka Public Sector Accounting Standards (SLPSAS)

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The following of non – compliances were observed.

<b>Non Compliance with Reference to the particular standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) Forty nine per cent of the share capital of the National Housing Development Finance Corporation Bank, is owned by the National Housing Development Authority (NHDA). However, action had not been taken to account that Company as an Associated Company or made adequate disclosure in the financial statements.	As this Bank is directly supervised by the Central Bank of Sri Lanka and incorporated by an Act, this as considered as a long term investment and accounted for it accordingly.	According to the SLPSAS, the Associate Companies should be accounted.
(b) The fixed deposit interest amounting to Rs.1.32 million related to the year under review had not been brought to the	The fixed deposit interest related to the scholarship fund, had been credited to that account and the total	In terms of SLPSAS, the payable and receivable balance should be shown separately in the financial statements.

financial statements and contrary to paragraph 48 of the SLPSAS No.01, the receivables from the Urban Development Authority (UDA) amounting to Rs.104.36 million for the period from 1984 to 2002 had been set off to the payable amount of Rs.52.51 million to the UDA and net payable amount of Rs.51.84 million had been shown in the financial statements of the year under review.

amount payable to the UDA had been shown in the account.

- (c) Contrary to the requirements of the SLPSAS-2, the non – cash transaction amounting to Rs.20.63 million that had been transferred from the work – in – progress account to the building account had also been adjusted to the cash flow statement as cash out flow, in computing the cash generated from the investment activities.
- The amended cash flow statement will be prepared and submitted.
- According to the SLPSAS, cash flow statement should be prepared.
- (d) The value of the land extent of 170.56 perches belonging to the Hantana Holiday Resort which had been acquired as a non – cash transaction in the years 1987 and 1988 had been shown in the financial statement as at end of the year under review as Rs.2,520. However, action had not
- At the time of acquisition of the land a nominal value had been accounted. Action will be taken to make adjustments in the accounts after being estimated.
- According to the SLPSAS, action should be taken to revalue the assets and shown them in the financial statements.

been taken to estimate the fair value of that land and shown in the financial statement in terms of paragraph 27 and 47 of the SLPSAS No.07.

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| (e) | In terms of paragraph 15 of the SLPSAS No.09, the stock should be shown in the financial statement at lower of the net realisable value and cost. However, without being estimated the net realisable value of 08 shops at the Park Road, that had been included to the stocks of the Authority. The value of that stock had been shown at its cost of Rs.6.1 million in the financial statements. | After obtaining the estimates, the stock value will be accounted.                           | According to the SLPSAS, the accounts should be kept.                                      |
| (f) | The investment Properties, 8 housing property units total value of Rs.6.21 million which had been given on rent/ lease basis by the Authority in the year 2018 and the value of 25 shops which scheduled to be deposited on rent basis located at Moratuwa and Maligawaththa, had not been shown as investment properties in the financial statements contrary to SLPSAS 13.                       | Those Properties are held for sale. Until selling them had been given on rent/ lease basis. | Action should be taken to account the investment properties in accordance with the SLPSAS. |

### 1.5.2 Accounting Policies

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#### Audit Observation

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The accounting policy of the Authority relating to the Development Assets is to show the lands value with the development costs incurred to develop the lands in the financial statements. Contrary to that policy, the development costs incurred to develop the lands, not belonging to the Authority amounting to Rs.156.84 million had also added to the development account.

#### Comments of the Management

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The land development activities had been done simultaneous to the accelerated land acquisition programmes. Hence, those expenses had been accounted in the development expenditure account.

#### Recommendation

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Action should be taken to account the development expenditure in accordance with accounting policy of the Authority.

### 1.5.3 Accounting Deficiencies

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#### Audit Observation

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- (a) According to the Notes to the Accounts for lands and building, the value of the lands had been shown as Rs.55.3 million. However, the value of 33 land plots of which the permanent office building of the Authority and rented out buildings are located and the land extent of 437.7 hectares belonging to the National Housing Development Authority, had not been valued and brought to the accounts.

#### Comments of the Management

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After selecting a Chartered Valuer or Valuation Institute, the valuation will be done accurately and account the land and building accordingly.

#### Recommendation

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Action should be taken to identify the assets belonging to the Authority and the valued amount of those assets should be accounted.

- (b) A sum of Rs.705.69 million received from 23 institutions to the Authority to conduct the programmes of those institutions had been shown under the grants in the financial statements as at end of the year

Those money was not directly linked with the development activities of the Authority. Hence, without being accounted in the income and expenditure accounts, only the receipts and payments had been accounted.

Adequate disclosure should be made relating to the special transactions.

under review. A sum of Rs.9.88 million had been received to that account during the year under review and out of that, a sum of Rs.6.95 million had been expended. However, those receipts and payments had not been shown under the income and expenditure of the Authority and only the net balance had been shown in the financial statements. Also, no disclosure had been made in that regard.

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| (c) The value of continuing construction works for the year under review totalling Rs.20.91 million, carrying out at 5 District Offices and a circuit bungalow had been shown under the current assets in the financial statements instead of being accounted as the work – in – progress. | After being totally completed and paid the bills, those building will be transferred to the fixed assets. | The working – in – progress that related to the fixed assets should be correctly accounted. |
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#### 1.5.4 Un reconciled Control Accounts or Records

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Item	As per the Financial Statements	As per the corresponding records	Difference	Management Comments	Recommendation
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	(Rs.mn)	(Rs.mn)	(Rs.mn)		
(a) Other grants (received from various individuals)	17.84	13.28	4.56	Corrected schedules will be furnished.	Action should be taken to make the adjustments for the differences after being reconciled the balances in the financial statements with the supporting documents.
(b) Sevana grant expenditure	3.51	8.27	4.76	Corrected scheduled will be furnished.	Action should be taken to make the adjustments for the

					differences after being reconciled the balances in the financial statements with the supporting documents.
(c)	Debts payable (Diriyapiyasa)	10.13	13.96	3.83	According to this loan scheme, unpaid loans should be equally beared by the Bank and the Authority. Hence, 50 per cent of the outstanding debts had been transferred to the Bank.
					Action should be taken to identify the correct loan balances according to the loan agreements.

### 1.5.5 Consolidation

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The financial statements of the subsidiary company of the Authority, the Ocean View Development Company, had not been furnished to audit up to May 2019. Hence, based on the unaudited financial statements, the Consolidated financial statements had been prepared.	When preparing the financial statements for the year 2019, the balances will be readjusted based on the audited financial statements at 31 December 2018.	The balances in the audited financial statements of the subsidiary company, should be used to prepare the consolidated financial statements.
(b) A difference of Rs.5.72 million was observed between the 5 items in the financial statements of the subsidiary company that had been used to prepare the consolidated financial statements and the financial statements approved by the Board of Directors.	When preparing the financial statements for the year 2019, the balances in audited financial statements as at 31 December 2018 will be readjusted. It had been informed that the same financial statements that furnished for audit, to furnish for preparation of consolidated financial statements.	The balances in the audited and approved financial statements should be used for preparation of the consolidated financial statements.

- (c) Even though the Authority had invested a sum of Rs.120 million in the subsidiary company and the subsidiary company had earned the profit after tax amounting to Rs.306.57 million and Rs.126.51 million for the years 2015 and 2016 respectively, any dividend had not been received by the Authority. According to the unaudited financial statements of the subsidiary company, the profit after tax for the year 2018 amounted to Rs.108.1 million.
- A sum of Rs.1.512 million had been received in 2019. The dividends had been requested for 2018. According to the computation of income tax expenses, a profit has been shown for the years 2014, 2015 and 2016.
- The Authority should be effectively interfered for the control over the activities and the dividend policy of the subsidiary company.

#### 1.5.6. Documentary Evidence not made Available for Audit

Item	Amount	Evidence not made available	Management Comment	Recommendation
	(Rs.mn)			
(a) Bank Loan	270.65	Bank confirmations	The reply was not received though the confirmation letters had been sent.	The confirmations relating to the balances shown in the financial statements and the detailed schedules should be furnished to audit.
(b) Grants	1,283.35	Supporting documents	The detail schedules will be submitted after being finalized.	
(c) Balance receivable - District Officers	7.6	Detailed information	The detailed schedules will be prepared and submitted.	

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Account Receivables

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Audit Observation	Management Comments	Recommendation
(a) The receivable balance as at 31 December 2018 to the Sevana Media Unite for publishing of advertisements amounted to Rs.55.1 million. Further, the over dues of Rs.39.12 million that should be receivable to the Sevana Media Unite for the fulfilment of opening of model villages, laying of foundation stones and publishing of other advertisements on behalf of the Authority.	Not commented by the Management	Action should be taken to recover the receivables immediately.
(b) A sum of Rs.4.36 million to be receivable under the Janaudana land sales of Kurunegala District and the receivables from the Urban Development Authority for the Galkaduwa land amounted to Rs.8.69 million. Further, 05 motor vehicles valued at Rs.11.28 million belonging to the Authority had been given to the State Engineering Corporation in the year 1991 and receivables thereon amounting to Rs.854,056 had not been received to the Authority after December 2014.	The receivable from the State Engineering Corporation will be covered from the payables to that Corporation.	Action should be taken to recover the receivable balances immediately.
(c) According to the financial statements, the total debtors balance receivable as at end of the year under review amounted to Rs.4,486.72 million. Out of that debtor balance, an aggregate amount of Rs.2,064.03 million had been brought forward for over 5 years without being recovered and it was represented	The District Officers had taken actions to recover the outstanding balances. However, due to the various reasons, recovering of loans had been declined.	The debts recovering process should be efficiently implemented.

46 per cent of the total amount. Even though a commission of Rs.135.44 million had been incurred in the year under review for collection of the debts, according to the progress report of the debts collection, only 71 per cent of debts had been collected in 2018. It was observed that as the total debts had been represented 49 per cent of the total debts receivable for over 5 years, the debts recovering progress was at a lower level. Further, actions had not been taken to cover the receivables amounting to Rs.33 million, from 3 public institutions and from a Corporative society after being negotiated with them.

## 1.6.2 Payables

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
(a) The loan instalments and interest for the funds obtained from 5 public and private institutions, for the projects amounting to Rs.855.05 million and the payables to the Ministry of Rehabilitation and the Ministry of Fisheries amounting to Rs.130.91 million and Rs.89.14 million respectively had not been settled for over 5 years.	Due to the financial position of the Authority, the payments had been delayed.	The settlement of payable amounts should be formalized.
(b) The total creditors' balance as at end of the year under review amounted to Rs.1,859.29 million and out of that balance, a sum of Rs.1,078.7 million was existed as payable for over 5 years. This represented 58 per cent of the total creditors.	The payables and pre paid urban housing rents will be settled in next year. Action has been taken to settled the tax payables.	The settlement of payable balances should be formalized and after being examined the non – liable balances, that balances should be credited to the income.

### 1.6.3 Advances

#### Audit Observation

Out of the advances given to external and internal parties by the Authority, action had not been taken to recover the unsettled advances amounting to Rs.195.64 million, for over 3 years up to end of the year under review.

#### Management Comments

Action had been taken to recover the contract advances after being completed the related works.

#### Recommendation

The internal control system for the payment of advances should be formalized.

### 1.7 Non – Compliances with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules and Regulations etc	Non – Compliance	Management Comment	Recommendation
(a)	Section 11(b) of the Finance Act No.38 of 1971 and paragraph 8.2.2 of chapter 8 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.	Concurrence of the Finance Minister had not been obtained for the long term and short term investments made amounting to Rs.2,263.42 million.	A letter had been furnished to obtain the Treasury approval.	The investments should be made after obtaining the required approvals in terms of the Finance Act.
(b)	Financial Regulation No.395 and 396 of the Democratic Socialist Republic of Sri Lanka	Action had not been taken in terms of these Financial Regulations relating to 198 uncashed cheques amounting to Rs.8.58 million remained more than 6 months issued by 14 bank accounts related to the District Offices.	Management had not commented.	Actions should be taken according to the prescribed regulations.
(c)	Paragraph 9 of Chapter XXVIII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Action had not been taken relating to securing and destroying of old files.	The construction work of the record room is almost formally completed. The old files had been kept in secured manner.	Action should be taken in compliance with the referred law.

(d) The public Administration Circular No. 04/2017 dated 28 February 2017

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| (i) Paragraph 03  | Violating the Circular instructions, graduates had been recruited as Trainees. 173 graduates recruited as Trainees in the year 2016 and 2017 for 19 District Officers have been worked as the Trainees up to 31 December 2018. | Until received the approval of the Department of Management Services, those officers had been recruited as Trainees due to the heavy development activities. | The recruitments should be complied with the requirement of the above circular.                |
| (ii) Paragraph 04   | According to the Circular instructions, only 10 per cent of the total employees or 25 employees could be recruited. However, exceeding that limit the Trainees had been recruited.   | Until received the approval of the Department of Management services, those officers had been recruited as Trainees due to the heavy development activities. | The recruitments should be complied with the requirement of the above circular.                |
| (iii) Paragraphs 06 and 08  | Even though the training period of the Trainees can not be extended over 6 months, the training period had been extended over that period.   | Until received the approval of the Department of Management services, those officers had been recruited as Trainees due to the heavy development activities. | The recruitments should be complied with the requirement of the above circular.                |
| (e) The Management Services Circular No.DMA/2009(2) dated 01 September 2009 and the Treasury Circular No.IAI/2002/02 dated 28 November 2002 | The Fixed Assets and the Computer Accessories Registers of the Authority had not been up dated.  | The Fixed Assets and related Registers Ledgers had been maintained and introducing a new computer programme, the accuracy of the them were being confirmed.  | According to the Circular instructions, the Fixed Assets Registers should be maintained.       |
| (f) Section 4.2.1 of the Government Procurement Guideline of 2006.  | A main procurement plan and a detailed procurement plan for a period of 3 years had not been prepared by the Authority.  | Action will be taken to prepare a procurement plan and detailed procurement plan.  | In terms of the Government Procurement Guideline, the required documents should be maintained. |

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| (g) | Paragraph 9.4 of chapter 9 of the Public Enterprises Circular No.PED/12 dated 02 June 2003. | After being released 26 employees to the Ministry and other Public Institutions without obtaining the Cabinet approval, the salaries and allowances had been paid by the Housing Development Authority. | They had assigned to carry out the duties relating to the “Selter for All” Programme.             | Action should be taken complying with the Circular.               |
| (h) | The Public Enterprises Circular No.96 dated 14 June 1994                                    | An monthly allowance of Rs.30,000 had been paid to the Assistant General Manager (Information and Media) in addition to the salary, without having the Treasury approval.                               | This payment had been paid with the approval of the Board of Directors for the additional duties. | According to the Circular instructions allowances should be paid. |

## 1.8 Non – Compliance to Tax Regulations

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### Audit Observation

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The input taxes and output taxes related to the Value Added Tax (VAT) should be reconciled, payable or receivable VAT should be accounted. Instead of being done so, the VAT paid by the Authority amounting to Rs.8.76 million had been written – off to the income statement.

### Management Comment

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The VAT payments had been made according to the formula of the Department of the Inland Revenue.

### Recommendation

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The rules and regulations introduced by the Department of Inland Revenue should be applied to account of VAT.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Group and Authority for the year under review had resulted deficit of Rs.891.01 million and Rs.999.36 million respectively and the corresponding deficits for the preceding year amounted to Rs.834.17 million and Rs.915.7 million respectively. Compared to the preceding year, it was observed that the financial results of the Group and the Authority for the year under review had been deteriorated by Rs.56.84 million and Rs.83.66 million respectively. Decrease of the land sales income for the year by Rs.65.41 million and increase of the other allowances (including training allowances) information and advertisement expenditure by Rs.133.79 million and Rs.93.9 million respectively had been mainly attributed for that deterioration.

## 2.2 Trend Analysis of major income and expenditure items

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The following observations are made.

- (a) A sum of Rs.63.59 million had been incurred during the year under review for public festivals and events and compared to the preceding year, that expenditure was increased by 92 per cent.
- (b) Due to improper transferring of condominium properties, a sum of Rs.282 million had been incurred by the Authority for repairing activities of those properties and compared to the preceding year that expenditure was increased by 28 per cent.

## 2.3 Ratio Analysis

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- (a) The current ratio as at end of the year under review and as at end of the preceding year were 1.6:1 and 1.7:1 respectively. As well, the quick ratio for the year under review was 1.6:1 and same ratio of 1.6:1 was in the preceding year. The quick ratio was higher than standard ratio of 1:1 in the both years and it was represented 86 per cent of debtors, deposits and advances, short term deposits and other current assets.
- (b) The gross profit ratio of the current year was 51 per cent and it was 81 per cent in the preceding year. Compared to the preceding year, decrease of land sale income by Rs.65.41 million and income from sale of houses by Rs.14.78 million had been mainly attributed for that situation.

## 3. Operational Review

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### 3.1 Uneconomic Transactions

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#### Audit Observation

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An aggregate amount of Rs.364.85 million had been incurred by the Head office and 23 District Officers of the Authority as at end of the year under review for the laying of foundation stones at villages, propaganda activities on opening ceremonies and for the preparation of inscriptions, name boards, number plates of houses etc. Compared with the total amount of those expenses with the loans and grants given to the beneficiaries in the year

#### Management Comment

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Comments had not been given by the Management.

#### Recommendation

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The expenditure of the Authority should be managed efficiently and fruitfully.

2018 amounting to Rs.826.36 that was represented about 44 per cent.

### 3.2 Identified Losses

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Audit Observation -----	Management Comment -----	Recommendation -----
(a) The Board of Survey for the year 2018 had not been completed and according to the Board Survey reports as at 31 December 2017, 239 items belonging to 51 categories of goods had not been made available for physical verifications.	The misplaced items had been sent to the Ranpokunugama stores. After being examined, the particulars will be provided.	The control over the assets should be formalized and the security of the assets should be established.
(b) The housing rent receivable amounting to Rs.446,330 on the official resident given to the Assistant General Manager (information and Media – contract) on 28 December 2017 without being signed an agreement, had not been recovered and the contract period of that officer had been terminated from January 2019. Further, due to the deficiencies in the payment of contributions to the Employees’ Provident Fund and Employees’ Trust Fund, a fine amounting to Rs.428,520 had to be paid and due to delaying the payment of gratuity to a Deputy General Manager, a surcharge of Rs.203,669 had also been paid by the Authority.	Actions has been taken to recover the receivable rents from the Assistant General Manager and due to payment for the Employees’ Provident Fund in arrears, a fine had to be paid. Due to delaying the payment of gratuity, a surcharge had been paid to the Deputy General Manager having the approval of the Board of Directors.	The legal commitments should be made according to the procedures in the law and the receivables to the Authority should be immediately recovered.

### 3.3 Management Inefficiencies

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Audit Observation	Management Comments	Recommendation
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(a) The allocated houses, remaining houses and shops which had been included in the stocks of the Authority valued at Rs.20.43 million were in the stock for over 5 years. However, actions had not been taken to sell them and to recover the arrears income of the properties.	The District Officers had taken actions to recover the receivables from the allocated houses. The letters required to sell the remaining houses had been sent to the Ministry to obtain the approval of the Minister.	The housing stock of the Authority should be properly managed.
(b) Due to not receiving of compliance reports, it had failed to transfer the houses to the owners. As a result, a sum of Rs.290.63 million had to be incurred to the Authority for repairing and maintenance activities of the Condominium and apartments, in the year 2018.	Due to not acquisition of land before the construction of condominium properties, not approving of building plans and not receiving of compliance reports, the properties could not be transferred to the beneficiaries. Hence, the repairing and maintenance cost had to be incurred to the Authority.	The process of transferring of the condominium properties should be formalized and the expenditure of the Authority should be effectively managed.
(c) Sixty six legal cases had been filed in the court by external parties, to sue the compensation of Rs.31.4 million from the Authority on the grounds of transferring of lands and buildings, payment of gratuities and disputes between Employees and the Employer. As same as, the Authority too had filed 1,125 cases to recover the compensation amounting to Rs.89.26 million on the ground of not paying of arrears rents, not acquisition of lands and recovering of loans.	Management had not furnished the comments.	Transferring and construction activities related to the lands and houses should be carried out in effective and fruitful manner.

### 3.4 Operational Inefficiencies

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Audit Observation	Management Comments	Recommendation
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(a) Even though it had been paid an advance of Rs.66 million to the Building Material Corporation in 7 instances in the year 2018 to recover the advance from the subsequent building material purchases, the formal approval thereon had not been furnished to audit. Out of that advance, a sum of Rs.20.47 million had been repaid in cash during the year under review.	The approving letters by the Chairman will be furnished.	Internal payment should be properly managed.
(b) It had been planned to commence the construction activities of 600 housing units and to complete 25 housing units in 2018 through the Southern Province Special Housing Programmes conducted under the Indian loan programme. Although construction of 581 housing units had been commenced, none of a house had been completed as at end of 2018. As well, even though it had been planned to complete of 1,560 and 1,115 and 100 housing units under the Sampath Sevana, the Sevana Donations and the Grama Sakhi housing programmes respectively, only housing unites of 152, 12 and 72 had been completed as at end of the year under review. Further, it had been planned to complete of 1,301 and 8,827 housing units under the continuous programme of Grama Shakthi and Sampath Sevana respectively. However, only 515 and 3,273 housing unites had been completed up to end of the year under review.	It had been delayed to given the provisions from the Indian High Commissioner Office. Further, due to the delaying the provide of contribution of the beneficiaries, the housing schemes had been delayed.	Operating activities should be implemented efficiently and effectively.

- (c) The estimated value of the 413 land plots, total extent of 60.59 hectares belonging to the 12 villages and given on lease basis in the 80/90 decade, amounted to Rs.13.48 million and those land plots had not been vested to the beneficiaries after being recovered the estimated value. Further, action had not been taken by the Authority to estimate the value of 44 land plots, extent of 7.459 hectares, belonging 3 Jana Udana Villages. The lands utilized to construction of the model villages during the period from 2015 to 2018, 77 land plots belonging to the Government and 8 land plots belonging to the Land Reform Commission, had not been acquired up to end of the year under review. Furthermore, the arrears rent receivable to the Authority from the 3 official residences at Mahawa Udagama housing scheme, the land not acquired to the Authority, amounted to Rs.1.32 million. As well as, the required approvals and recommendations had not been obtained for the commencement of Epalogama and Puliyankulama housing schemes in Anuradhapura and 10 acres of lands had not been acquired.
- After being made the land valuations of the acquired lands, the valuation numbers had been given to the residents. Non acquired lands had not been valued. Acquisitions of the lands used to the construction of model villages, had been delayed according to the time.
- The controlling functions relating to the assets should be formalized.
- (d) The provision amounting to Rs.178.25 million had been shown in the financial statements, that received for the payment of the compensations for acquired 72 land plots by the Authority in terms of section 38(b) of the Land Acquisition Act. Of this amount, a balance older than 39 years was also existed. However, action had not been taken to settled the compensation and interest up to end of the year under review.
- The Divisional Secretary had not informed the compensation estimate. The request had been made.
- The process of land acquisition and payment of compensation should be efficiently implemented.

### 3.5 Under Utilization of Funds

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#### Audit Observation

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The balance of the Sevana Fund Account, comprising of funds received from the Sevana Fund and the Treasury, as at end of the year under review amounted to Rs.938.25 million. However, only a sum of Rs.70.25 million had been utilized in the year 2018.

#### Management Comments

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Based on the approval of the Governing Board and request made by the Recipients, of the Sevana Fund money had been released.

#### Recommendation

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The funds should be utilized in effective and efficient manner.

### 3.6 The resources Released to the other Institutions

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#### Audit Observation

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Contrary to Section 3.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, 38 officers had been released to duties of other Public Institutions without obtaining the approval of the Cabinet of Ministers up to end of the year under review. A sum of Rs.71.04 million should be received thereon and out of that, a sum of Rs.70.96 million had not been recovered for over 5 years.

#### Management Comment

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To write off that amount, a Board paper had been furnished to the Board.

#### Recommendation

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The human resource management activities should be formalized and action should be taken to recover the receivable balances.

### 3.7 Human Resource Management

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#### Audit Observation

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Lack of the required qualifications stipulated in the recruitment procedure, not advertising of the posts, not conducting the structured interviews and paying of salaries adding the allowances without obtaining the Treasury approval etc

#### Management Comment

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To accelerate the housing development activities, those appointments had been made. Based on the approval given by the Board of Directors, the retired officers had been recruited to

#### Recommendation

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The recruitments of the employees should be formalized.

were observed when recruited of staff officers to the Authority. As well, even though the Management Services Department had approved only 1,486 contract basis posts, 2,214 contract basis appointments had been given on 28 February 2019 non – complying with qualification in the recruitment procedure and making changes to designations. Without obtaining the formal approval, 31 officers older than 60 years, had been recruited by extending the service period and appointing them on contract basis.

accelerate the development activities.

### 3.8 Management of Motor vehicle fleet

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Audit Observation -----	Management Comments -----	Recommendation -----
(a) Even though a sum of Rs.41.99 million had been paid as leasing charges for 18 motor vehicles in the year 2018, the Authority had paid a sum of Rs.82.46 million for the rented motor vehicles in 2018. Further, the maintenance cost of the motor vehicles in 2018 amounted to Rs.20.47 million.	Due to the extending of the functions of the Authority and not giving of the approval for purchase of motor vehicles, the rented motor vehicles had been used. Further, old motor vehicles were created frequent breakdown.	The control over utilization of motor vehicles should be formalized and the expenditure of the Authority should be property managed.

## 4. Accountability and Good Governance

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### 4.1 Objectives of the sustainable Development Galls

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Audit Observation -----	Management Comments -----	Recommendation -----
With the main objective of “shelter for all”, the Authority had identified the right of every family live in the Island to have a house with the features of environmental friendly, sustainable, quality and permanently secured and with basic facilities. The functions such as		

providing of loans and grants for constructing and development activities of the houses, providing of technical and other support for housing constructions, secure the ownership of residents, providing of required deeds etc have been carried out. The following observations are made in this regard.

- |     |   |                                   |  |
|-----|---|-----------------------------------|--|
| (a) | It was observed that the Authority that the Authority had followed a participatory approach, in preparing of the sustainable development goals, after identifying the stakeholders of the Authority. However, the successfulness of the participation was at a lower level. Also, the successfulness of the performance indicators built-up to measure the sustainable development goals, had not been periodically tested. | The Management had not commented. | Action should be taken to achieve the sustainable development goals. |
| (b) | After being identified the targeted functions for the achievement of the sustainable development goals, those functions had not been included to the annual plan.   | The Management had not commented. | Action should be taken to achieve the sustainable development goals. |
| (c) | It was observed that due to the lack of coordination with the plans of the institutions, when preparing for achievement of sustainable development goals, the process for the preparation for planning and pre preparation activities in a weaker level.  | The Management had not commented. | Action should be taken to achieve the sustainable development goals. |