National Housing Development Authority - 2023

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Housing Development Authority ("Authority") and its Subsidiary for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

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

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

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

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

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

	Non-compliance with reference to relevant standard	Management comments	Recommendation
(a)	Sri Lanka Public Sector Accounting Standards 01- Presentation of Financial Statements		
(i)	As set out in paragraph 29(a) and the appendix, reliable information should be presented free from material error and bias according to the qualitative characteristics of financial reporting. However, the amount of Rs. 5.82 million to be recovered from the frauds committed by the officers of the authority, had not been disclosed in the financial statements.	A sum of Rs. 3.321 million related to Galle, Nuwara Eliya, and Kalutara has been disclosed.	According to the standards, all reliable information should be disclosed in the financial statements.
(ii)	Although the standard prescribes formats for submitting financial statements by public sector entities, the Authority had not classified its income and expenses in the statement of financial performance for the year ended 31 December 2023 as per these formats.	The financial statements for 2024 will be prepared in the correct format.	Should adhere to the format introduced by the Standard.
(b)	Sri Lanka Public Sector Accounting Standard No. 7 - Property, Plant and Equipment As per the paragraph 65 of the standard, the residual value and the useful life of an asset shall be reviewed	The accounts have been maintained on a cost basis in accordance with the Sri	Depreciation of fixed assets should be carried out as

	at least once a year and, if expectations differ from previous estimates, the changes shall be accounted as a change in accounting estimate in terms of SLPSAS 3, ―Accounting Policies, Changes in Accounting Estimates and Errors but the Authority had failed to act as per the standard, further the cost of fixed assets, fully depreciated and valued at zero had been reported as Rs. 274.11 million in the financial statements at the end of the year under review.	Lanka Public Sector Accounting Standards 41.	prescribed by the standard.
(c)	Sri Lanka Public Sector Accounting Standard No. 8 – Provisions, Contingent Liabilities and Contingent Assets, Contingent liabilities should be identified and 60 percent or 90 percent of a provision should be made according to paragraph 47. However, according to the accounting policy 8.1 of the Authority, a sum of Rs. 2,616.5 million related to compensation of 26 cases filed in court by external parties against the Authority, had been identified as contingent liabilities, but only ten percent had been provisioned in the financial statements.	From 2024, it will be increased to 20 percent depending on the nature of Contingent liability.	Adequate provision should be made for contingent liabilities as per the standard.
(d)	Sri Lanka Public Sector Accounting Standard No. 9 – Stock The authority has recognized the cost incurred for developing the land acquired for housing purposes was Rs. 1,090 million and the cost had been accounted as development assets. However, the accounting policy for this expenditure, as stated by paragraph 47 of the Standard, had not been disclosed.	Land development cost are classified under development assets, and it will be recovered during the sale of land.	The requirements of the Standard should be adhered to.
(e)	Sri Lanka Public Sector Accounting Standard No. 10 - Revenue from Exchange Transactions		

(i)	According to paragraph 16 of the Standard, the Authority has not recognized the fair value and nominal value of interest income on loan installment amounted to Rs. 791.99 million. Furthermore, this had been accounted without identifying the difference between these values as required by paragraphs 33 and 34 of the Standard.	According to paragraph 34 of Standard 10 - the agreed-upon interest income has been recognized as revenue.	As per the provisions of the Standard, housing loan installments and interest income should be identified appropriately.
(ii)	According to paragraph 34(a) of the Standard, the Authority has not calculated interest on Treasury Bills as at 31 December of the year under review. Instead, the total interest received on the maturity date of the Treasury Bills had been accounted as income. Accordingly, the interest income for investments in Treasury Bills made during 2022 had been recognized in 2023. As a result, interest related to bonds for 2023 had been overstated by Rs. 18.14 million.	This will be corrected in 2024.	The relevant adjustments should be made when preparing the financial statements in accordance to the Standard.
(f)	According to Sri Lanka Public Sector Accounting Standard No. 11 on Revenue from Non-Exchange Transactions, the Government Grant amounted to Rs. 1,319 million, received by the Authority from non-exchange transactions during the year under review which should have been recognized as revenue but it had been recorded under reserves in contrary to the provisions outlined in paragraph 44,	In Note 37, the funds received from the Treasury had been accounted as revenue.	Financial statements should be prepared in compliance with the Public Sector Accounting Standards.
(g)	According to the Sri Lanka Public Sector Accounting Standard No. 12, on Lease Disclosures, as per Paragraph 59 of the Standard, the lessor should disclose the financial lease in the financial statements. However, the Authority had failed to disclose the value of housing units amounting to	The value of housing units provided on a rental basis has been accounted under fixed assets instead. These are not treated as financial leases as per the agreements made with the beneficiaries.	When providing a financial lease, the related assets should be accurately identified as per the Standard.

	Rs. 82.41 million as financial leases which had been leased on a rental basis.		
(h)	Under Sri Lanka Public Sector Accounting Standard No. 13 on Investment Properties, Paragraph 7 of the Standard, requires the Authority to account buildings valued at Rs. 912.37 million, leased or rented out, as investment properties. However, these had been reported under land and buildings. Additionally, houses valued at Rs. 29.25 million constructed for sale had not recognized as investment properties according to paragraph 44 of the Standard. Similarly, expenses incurred for 142 rented out shops had not accounted for.	After a property revaluation, the updated values will be accounted in 2024.	Actions should be taken to identify investment property in compliance with the Standard.
(i)	According to Sri Lanka Public Sector Accounting Standard No. 14 on Related Party Disclosures, paragraph 16 of the Standard, requires sufficient information on related parties should be disclosed. However, the Authority had failed to disclose such information.	Disclosures are made in Note 17.5.	Financial statements should include necessary disclosures on related parties and transactions as per the Standards.
(j)	Sri Lanka Public Sector Accounting Standard No. 17 on Segment Reporting, Paragraph 9 of the Standard, requires to identify distinct activities of the Authority such as housing sales, land sales and Leases, housing loans, housing project implementation, and client-based projects separately for performance evaluations. However, no such separate performance evaluations had been identified.	Financial information on activities such as rental income, interest income and other income had been disclosed in the statement of financial performance along with detailed information included in the notes.	Identifying distinct segments and evaluating their performance separately would help to enhance the efficiency of segment-specific activities.

1.5.2 Accounting Deficiencies

	Audit Observations	Management Responses	Recommendations
(a)	According to Note 13 of the accounting policies of the Authority, when acquiring state lands for housing construction purposes without making payments, the market value of the land should be estimated. After matching the initial expenses, the amount should be transferred to the reserve account. However, 781 acres, 2 roots, and 20.7 perches of land had been acquired after 2013 but it had not been accounted as reserves.	Due to High cost to be incurred on valuation. The process will be carried out in parts and the fair value will be reflected in the 2024 accounts.	Actions should be complied with the accounting policies.
(b)	In the cash flow statement for the year under review, depreciation of property, plant, and equipment in the net cash flow generated under operating, investing, and financial activities had been under stated by Rs. 0.670 million, while the grants received had been over stated by Rs. 1,918.11 million.	The cash flow statement has been correctly prepared and resubmitted. .	The cash flows included in the cash flow statement should be accurately identified
(c)	In 2022, Rs. 1.59 million related to financial fraud at the Kalutara District Office had been recovered from those involved. However, the recovered amount had not been reconciled with the accounts of the beneficiaries who had made the payments and it had been accounted as creditors during the year under review. Thus, the creditor and debtor balances had been overstated by that amount.	The amount has been accounted under creditors but the reconciliation cannot be completed until legal proceedings regarding the fraud are concluded.	The recovered amount should be analyzed and action should be taken to reconcile the debtors accounts.
(d)	By 31 December of the year under review, Rs. 74.54 million had been recorded as payable for funds received from other institutions for various housing programs and activities conducted by the Authority between 1987 and 2013. However, the Authority had identified that these amounts should not be paid, but the adjustments had not been made in the accounts.	The matter will be presented to the Audit and Management Committee and the necessary adjustments will be made in the accounts.	Relevant adjustments should be made in the financial statements.

(e)	The overdue tax liability of Ocean View Development Company for the year under review was Rs. 1.26 million. However, it had been recorded in the statement of financial position as Rs. 4.19 million. Current liabilities and income tax expenses for the year had been overstated by Rs. 2.93 million.	The adjustment on Tax allocations will be corrected in 2024.	Financial statements should be accurately prepared.
(f)	According to the paragraphs 28 and 86 of Sri Lanka Accounting Standard No. 37, contingent liabilities related to a lawsuit against Ocean View Development Company in demand for compensation of Rs. 130 million had not been disclosed in the financial statements.	Notes on this matter will be included in future financial statements	Necessary disclosures should be made in the financial statements.
(g)	As per the cash flow statement, of the Company, the cash flow from operating activities before working capital adjustments was Rs. 26.48 million. However, it had been reported as Rs. 21.15 million, as a result cash flow from operating activities before working capital had been under stated by Rs. 5.33 million.	Corrections had been made in the annual report.	Financial statements should be accurately presented.
(h)	A revaluation gain of Rs. 3.75 million on the part of investment property which used as the office of the Ocean View Development Company and a deferred tax liability of Rs. 0.29 million related to retirement benefit obligations had been stated under the Company's comprehensive income. However, these amounts should be included in the comprehensive income of the Group, but these had been added to other income of the group Hence, comprehensive income of the Group had been overstated by these amounts.	These amounts are included under other income in the consolidated accounts.	The amounts should be presented under the comprehensive income of the group.

1.6 Receivables and Payables Accounts

1.6.1 Receivables

	Audit Observations	Management Responses	Recommendations
(a)	During the audit of debt collection at the 04 District Offices of the Authority, it was noted	Various methods have	A detailed analysis of the old debt balances

	that, as at 31 December 2023, a sum of Rs. 179.6 million loans had been distributed during the period of 1984–2014, and Rs. 2,164.66 million loans had been distributed during 2018–2023 through three District Offices, remained pending. Further, it was observed that due to the absence of a proper assessment of recoverability and the lack of a systematic collection procedure these debts could not be collected.	been adopted to increase the debt recovery.	should be conducted, and methods should be introduced for recovery.
(b)	According to the financial statements of the Authority, a sum of Rs. 104.25 million was recorded as receivable from the Urban Development Authority, while Rs. 52.51 million had been recorded as payable to the Authority. However, based on the confirmation of balances recorded from the Urban Development Authority, it was observed that no amount was payable from that Authority. Instead, Rs. 41.83 million was still to be recovered to that Authority.	The relevant documents have been presented to audit.	Immediate action should be taken to settle the balance.

1.6.2 Payables

Audit Observations	Management Responses	Recommendations
Out of the total refunds withheld from contractors amounting to Rs. 204.88 million, a sum of Rs. 114.49 million, or 57 percent, had remained outstanding for more than five years.	After discussing with the Engineering Division, steps will be taken to credit the income.	Action should be taken to clear long-outstanding balances immediately.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section (ix) of paragraph3.4 of the Guidelines in Public Enterprise Circular No. 01/2021 dated 16 November 2021	Although acting appointments should only be made on special occasions, it was observed that acting appointments for 14 positions have been prolonged for periods ranging from 01 year to 03 years.	As per the 3/2022, Due to delays in the proper filling of vacancies, acting appointments, attending to duties and cover-up duties had been made to fulfill the responsibilities of vacant positions.	It is essential to recruit suitably qualified internal or external officers systematically.

(b)	Internal Property Management Circular No. 2011/De.K/01 of the Authority dated 01 January 2012	It was observed that land allocations in 35 instances had been made in violation of the relevant procedures. Among these lands in Wattala Gongithota, Rukmalgama, Chitra Pathumaga, and Dematagoda Mahawilawatta. Additionally, approval from the Board of Directors had granted for unallocated lands and houses. However, in 17 instances, valuation details and land sizes had not been specified. Furthermore, 46 shops had been leased out under the above mechanism at a fee of Rs. 100 each. Although only plots of less than 6 perches should have been considered when allocating adjacent lands, plots ranging from 13 to 23.9 perches were also allocated as adjacent lands.	Under Section 75/1 of the Authority's Act, land allocations were made with the approval of the Minister based on the recommendations of the Board of Directors.	Adhere to Property Management Circular instructions.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.1,007 million for the Authority and Rs. 916.6 million for the Group. and the corresponding deficit in the preceding year amounted to Rs.1,287 million for the Authority and Rs. 1,105.6 million for the Group. Therefore, an improvement amounting to Rs. 280 million for the Authority and Rs. 189 million for the Group of the financial result was observed. This improvement was mainly due to an increase in other income by Rs. 1,782 million.

2.2 Trend Analysis of major Income and Expenditure items

Income/Expenditure	**2023 Rs.**	**2022 Rs.**	**Difference Rs.**	**Difference in Percentage %**
Total Income	4,232,437,710	2,476,321,102	1,756,116,608	71
Income from sales of land and houses	117,919,662	42,946,164	74,973,498	175
Other income	4,216,019,551	2,474,950,097	1,741,069,453	70

<u>Total Expenditure</u>	5,198,350,820	3,672,585,808	1,525,765,012	41
Vehicle on rent	55,330,833	45,166,529	10,164,304	23
Legal expenses	44,140,691	23,276,486	20,864,205	89
Profit/ Loss before Tax	(965,913,109)	(1,196,264,706)	230,351,597	19

Compare to previous year, the income from sales of land and houses increased by 175 percent, and other income increased by 73 percent. Additionally, vehicle leasing costs increased by 23 percent, and legal expenses increased by 89 percent.

2.3 Ratio Analysis

At the end of the year under review, the current ratio of the Authority was 2.7:1 and the quick ratio was 2.68:1, compared to 2.4:1 and 2.37:1 in the previous year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The Colombo Maligawatta District Office A, B, C car park and Pradeepa Mawatha car park had been leased again from October 2022 to August 2023 to a person who had not paid any rent for a period of 32 months. An amount of Rs. 2.175 million had also not been recovered for this period. Even though a security deposit of Rs. 1.575 million was decided to be recovered, it was not paid by the lessee. Despite the decision to seal all the parking lots on 09 September 2023, the Pradeepa Mawatha parking lot was still being used without authorization on 26 January 2024. Thus, no revenue was earned by the Authority from the proper lease of this land.	"All parking lots have been sealed due to non-payment of rent. Although new bids were called, the first bid has not been submitted. A decision has been made to select the second bid.	The assets of the Authority should be utilized efficiently to generate revenue.
(b)	Although the Board of Directors had decided to lease out three community halls operated under the Mutwal District Office of the Authority, the leasing process was carried out without adhering to the Government Procurement Guidelines -2006. Further, the initial lease agreement for the Mutwal Community Hall had been terminated and subsequently leased to another party. Despite several requests for the relevant file to be submitted for audit, it was not provided for review.	An estimate of Rs. 8.6 million has been prepared for the renovation of the Mutwal Community Hall. As a result, it has been decided to hand over its management on a lease basis.	The assets owned by the Authority should be utilized effectively to generate revenue.

(c)	According to the number of land plots reported by the Property Management Division of the Authority, between 2019 and 2022, there was a reduction of 300 adjacent land plots, 1,503 unauthorized land plots, and 2,618 vacant land plots. Further, an additional 61 vacant land plots had been decreased by September 2023. The Authority was unable to provide detailed information regarding the reasons for this reduction during the audit, which led to contentious issues in Audit.	A valuation report covering 149 land plots totaling 5.81 hectares has been submitted, and a portion of these plots has already been sold. Steps are being taken to sell the remaining plots after valuing the rest of the land.	Detailed information regarding the vacant, adjacent, and unauthorized land plots owned by the Authority must be submitted for audit purposes.
(d)	Based on Cabinet approval, without a public tender process, a plot of land extended 01 acre and 26.5 perches, located on Darley Road, Colombo 10, owned by the Authority, had been handed over to a foreign company on 09 November 2005, for the construction of a mixed-development project comprising residential and commercial complexes. According to the agreement signed on 23 June 2006 between the Authority and the company, the value of the land, which was valued by the Government Chief Valuer at Rs. 650 million, had to be recovered, and a profit share of Rs. 162 million had to be paid to the Authority after the completion of the project within six years. However, the company had failed to carry out the proposed development work and withdrew from the project in 2006. The project was then assigned to another foreign company. Before receiving payment, the Authority had transferred ownership of the land to the new company through deed number 983 on 05 May 2016. According to the agreement, the new company had required to pay Rs. 712 million in foreign currency to the Authority. However, contrary to this agreement, the company had obtained loans by mortgaging 03 land plots numbered 2, 3, and 4 to a private bank and paid Rs. 800 million in local currency through two cheques from the said bank, dated 05 May 2016. Despite this, the proposed development work had not	An integrated cooperation agreement was signed on 23 June 2006 with a German company named BAY SAT MBH (Pvt) LTD for the construction of a mixed-development residential project on a land plot extended to 1 acre and 26.5 perches on Darley Road. Plots numbered 4 and 5 had been transferred to the company through deed number 975. In 2006, the company changed its name as L & T Infrastructure Development and on 10 August 2007, plots numbered 1, 2, and 3 were transferred to the company through deed number 983, and a supplementary agreement was entered on 05 May 2016. As no development activities had commenced even after seven years, deeds 975 and 983 were canceled by the	Proper procedures should be followed in selecting institutions for projects and in land disposal. Agreements should be made with terms that favorable to the Authority, and proper project monitoring should be conducted. Additionally, a formal investigation should be carried out against the officials who have failed to give due attention to the above matters.

	been undertaken by the company up to the date of the audit. Meanwhile, in 2017, the company sold plot number 5 to another third-party company through a deed, and the third party mortgaged the deed to a government bank and obtained a loan of Rs. 950 million. Later the Authority had canceled the sale deed, but the third-party company had filed three lawsuits against the Authority in the Supreme Court, District Court, and Court of Appeal. Until a final verdict had been delivered, the courts had granted possession of the land to the third-party company. According to the above facts, it was revealed that the Authority had not acted in compliance with the powers granted under its Act and Authority had executed its responsibilities in a favorable manner to the parties involved in the agreements.	Authority. Plots 1 to 5, along with parts of another land, were consolidated under Section 3011 of plan number 01 (819). On 31 October 2007, the consolidated land was mortgaged for Rs. 950 million to a Government Bank by Darley Road Private Limited and OAK Street Company. In this regard, OAK Street company had filed a fundamental rights case in the Supreme Court, a case in the Colombo District Court, and an appeal in the Civil Appellate Court, challenging the decisions.	
(e)	A plot of land extend to 5 acres and 10 perches, known as "Parangiya Kumbura" in Nawala, owned by the Authority, had been transferred to a private company in 2004 on a Cabinet decision based on the Government valuation conducted in 2003. The transfer was made through a conditional freehold deed for Rs. 75 million, with the agreement that a housing complex would be constructed within three years. However, In 2004, the transfer of the land based on its 2003 valuation lead a loss of Rs. 46.5 million to the Authority. Despite the agreement, the company had not implemented the proposed development project. Instead, it sold 29.44 perches of the land to another company for Rs. 196.5 million in 2006 and mortgaged the remaining land to a Private Bank, and obtaining a loan of Rs. 697.5 million. On 26 June 2020, under Section 8(1) of the National Housing Development Authority Act No. 17 of 1979, the Authority had	A housing project on a 5-acre and 10-perch plot of land known as Parangiya Kumbura, located on Kiri Mandala Mawatha, Nawala, was initiated under an agreement between the Authority and Eco Home Lanka (PVT) Ltd on 21 September 2004. This land had been transferred with conditions through a deed of transfer at a government-assessed value of Rs. 75 million as of 21 August 2003 valid for two years. Due to the failure to implement the proposed project and the sale of part of the land to a	When selecting institutions for projects and allocating land, proper procedures must be followed, ensuring agreements include terms that favorable to the Authority. Additionally, proper project monitoring should be conducted. Investigations must be initiated against officials who fail to pay due attention to the aforementioned

	canceled the deed and reclaimed the land. However, the company, filed a case against the Authority and another individual also filed a case in the District Court claiming ownership of the land. It was observed that the Authority had failed to follow procurement procedures when transferring land for the project, non including the necessary conditions in the agreements, prepare the agreements incorrectly, and failed to carry out appropriate supervision.	Private Company, the deed of transfer was canceled, and the property was reverted to the Authority's possession. Thereafter the Private Company filed a case against the Authority and 04 other entities in the Court of Appeal. The hearing is scheduled for 11 October 2024. Additionally, another individual has filed a case in the Colombo District Court to claim ownership of the land. Currently, the land has been leased to another Private Company at a monthly rental of Rs. 500,000.	aspects.
(f)	Two land plots, namely Lot No. 49/C of Property No. 4051 in Maligawatta 12 perches and 117 Waththa in Elvitigala Mawatha 7.25 perches had been leased to a self-employment beneficiaries' association in 2014 at a nominal value of 1 percent of the nominal value, amounting to Rs. 240,000 and Rs. 180,000 for the respective plots. Even though prior approval from the Cabinet has to be obtained in this regard as per the Cabinet Memorandum No. 98/641/21/062, this has not been obtained. Further, as per the Circular No. 2011/දෙක/03 issued by the Authority, the annual rent should be 4 percent of the assessed value of the land and the rent should be revised every 2 and 5 years based on updated assessments. However, this had not been followed when entering into the agreements. Further, since the land had not been used for the specific purpose mentioned in the lease agreement, it was advised by the Attorney General by letters No. 11/01/05/05 and 2017 to cancel the lease agreement. Even though the lease	Since the lands provided have not been utilized for their intended purposes, future actions will be taken to either cancel the lease agreements or leasing the properties based on government-assessed valuations.	Disciplinary action should be taken against the officials who are responsible for the release of lands belonging to the Authority on improper and unfavorable manner.

	agreement had been canceled on 26 June 2019 and 15 September 2023, the same organization had re-leased the land starting from 21 March 2023. Moreover, a fraudulent lease agreement had been presented to the Audit for investigation, but any information had not been received regarding the existence of such an organization in the Audit. A physical inspection revealed that a modern-style restaurant is being built on the land. Based on these findings, it was revealed that the disposal of the land of the Authority had been carried out in a unfavorable manner.		
(g)	According to the provisions of the Act of the Authority, if lands are leased on a freehold basis, lands should strictly be used for residential purposes. However, a 60-perch plot of land located in Ranpokunugama Housing Scheme, Lot Nos. 02 and 03 of Plan No. 166, had been leased on a freehold basis for 20 years in 2012 for the establishment of a fuel station, at a monthly rent of Rs. 30,000. Subsequently, an adjacent 1.3 perches were also added at a rent of Rs. 650 per month. However, this had not been included in the lease agreement. Further, in 2015, the lease term had been extended by 10 years, but the rent had not been revised based on revaluation reports every five years, as required. From January to December 2021, a monthly rent of Rs. 71,500 had been charged. Based on the request of the primary lessee, the property had been approved to be leased on a freehold basis to another party with the approval of the Board of Directors under Resolution No. 17/2022, dated 24 December 2022. This indicates that the property had been leased on a freehold basis lead to violation of the Act of the Authority. According to the valuation report dated 7 June 2022, the property valued at Rs. 73.5 million, but the valuation report used for rent calculation was based on the undeveloped value of the land in 2015, which was over nine years. The Authority had requested a	When the lessee acquired the land in 2015, it was in an undeveloped value, and therefore, they requested the land at the prevailing assessed value at that time. However, the assessment report for that period was not available.	Disciplinary action should be taken against the officials responsible for releasing the land of the Authority in an unprofitable manner.

	revaluation from the Department of Valuation in 2015, but the updated valuation was not received.		
(h)	The building constructed on a 21.5-perch කො/න 104 plot of land bearing Lot No. 65 at the Maligawatta Housing Complex, owned by the Authority, had been leased for a monthly rent of Rs. 3,900, as determined by the pricing committee of the Authority, without obtaining a valuation for the rent. A lease agreement had been made for the period from 19 August 1999 to 19 August 2000. Even though prior Cabinet approval had to be obtained as per Cabinet Paper No. 98/641/21/062 when leasing state-owned lands to religious institutions, sacred sites, educational, or research institutions approval had not obtained in this case. Although the lease expired on 19 August 2000, it was not renewed, and the lessee failed to pay the rent. Legal notices had been issued demanding the return of vacant possession of the building to the Authority, but it had not been handed over. Instead, in 2000, a part of the building had been demolished without the approval of the Authority, and a new structure was constructed by the lessee for the administrative purposes of a preschool. Moreover the outstanding rent from August 1999 to June 2004 was offset against the expenses incurred by the lessee for constructing the new building. However, the rent for the period from 2004 to 2011 was not paid. On 19 July 2011, up to March 2013, the rent had not been paid, and in May 2013, it was defaulted. Further, despite these payment defaults, the building had been leased to the same institution, which had a history of rent evasion, for a total of 23 years without any proper review or oversight. In 2013, a new lease agreement had been signed, which expired in 2018. Subsequently, the preschool administration had requested to lease the building for 30 years. According to a valuation report obtained from the Valuation Department, a	Although written notice has been issued to pay the outstanding amount, no reasonable response has been received.	Disciplinary action should be taken against the officials who leased the building without obtaining a rent assessment.

	monthly rent of Rs. 177,000 should have been charged. However, until April 2023, the lease continued at the nominal rate of Rs. 3,900. Based on the request made by the preschool, the Board of Directors had decided to charge Rs. 30,000 per month from 2023 onward. The failure to charge the assessed rent led a loss of Rs. 10.28 million to the Authority from 2018 to 2023.		
(i)	According to Cabinet Decision No. අමප/20/1381/306/057 dated 15 December 2020, approval was granted for the construction of a housing complex consisting of 154 housing units in 12 storied buildings on a 7.6-hectare plot of land at Yakkala Werellawatta. During a site inspection, it was decided to clear the land, prepare the project plan and estimates, and relocate the high-tension electrical lines running across the property and the construction work had been handed over to the State Engineering Corporation. By the end of the year under review, the Authority had spent Rs. 169.7 million on this project. However, only the foundation work had been completed, and the project had been abandoned it was observed that this expenditure could be as uneconomical.	National Budget Circular No. 3/2022 has instructed that construction should not be commenced.	Attention should be focused on the feasibility of completing the work in the future according to the plans.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The Soyzapura office had leased 22 shops on a rental basis, but 13 of them were subleased by the tenants to other individuals. Although the Authority had been informed of this, no action was taken. Further, Shops 1, 2, and 3 had been rented to the Moratuwa Cooperative Society from 1 March 1999 at Rs. 195 per month, but no efforts had been taken to revise the rent to current valuation rates. Furthermore, a shop had been rented for operating a milk bar since 1 January 1998 at a monthly rent of Rs. 65 but rent had not been paid over 11 years and 7 months	After confirming the subleasing, the shops were re-leased to the subtenants at Rs. 12,000 each. Similarly, the milk bar was reacquired and then leased back to the same party at Rs. 12,000 per month. Efforts to reclaim the lands are ongoing.	Continuous supervision is essential to ensure proper management of the properties owned by the Authority.

	up to 10 November 2023. Despite this, the Authority had not taken any action to unauthorized occupants who have settled on Authority-owned lands between Dehiwala and Moratuwa,and action had not been taken to regularize or value these lands. While charging nominal amount of Rs. 500, it is not being collected efficiently.		
(b)	Under the Model Villages Project implemented during the years 2015–2019 by the Authority, there were 2,150 incomplete villages consisting of 39,815 houses had been observed by the year under review. Out of this, only 681 houses had been completed during the year under review at a cost of Rs. 190.63 million. Under the Indian Housing Assistance Project initiated between 2017–2019, 114 incomplete houses remained across 25 villages. Although Rs. 103 million had been allocated in the year under review to construct 143 houses, only 29 houses had been completed at a cost of Rs. 6.38 million. Similarly, under the Grama Shakthi Housing Project, 1,605 houses had been planned to be constructed during the year under review at an estimated cost of Rs. 554 million. However, only 57 houses had been completed at a cost of Rs. 48.8 million.	No allocations have been received for Model Villages and “Neero” Villages after 2019.	The construction of housing projects should be completed within the stipulated time frame, ensuring that beneficiaries receive the intended benefits.
(c)	Under the "A House for You – A Tomorrow for the Country" project implemented in the Puttalam District, an estimate of Rs. 12 million had been allocated under Phase 4 during the year under review to construct 25 housing units. However, only 9 houses had been fully completed across all four phases, incurring of Rs. 8.785 million, while the construction of the remaining 16 houses had not been completed. Under the Gramashakthi Model Villages Assistance Program, Rs. 172.7 million had been allocated during the period 2017–2019,	No allocations have been received for Model Villages and “Neero” Villages after 2019.	The housing projects should be completed within the stipulated timeframe, ensuring beneficiaries receive their entitlements.

	but only Rs. 34.1 million, or 20 percent had been disbursed. Consequently, the housing construction work had been abandoned. Moreover, under the "Neero" Villages Project, in 2017, a Ranaviru Village was planned on a 3-acre plot of land, selecting 40 beneficiaries. Of these, 21 had sold the lands to other parties, while the remaining 19 had owned other properties in their possession. Payment had not been charged for these lands. Moreover, a sum of Rs. 2.97 million loans granted for housing construction, were overdue from 12 individuals and it could not be recovered.		
(d)	During the year under review, the Authority had incurred of Rs. 44.14 million as legal fees for cases filed against and by the Authority. Out of this amount, Rs. 6.97 million had been spent on a case at the Singapore International Arbitration Centre related to the Bambalapitiya Housing Redevelopment Project, and Rs. 2.23 million had been incurred for legal fees concerning the Ragama Lavanya Heights Housing Project. Additionally, 852 labor cases had been filed by contract workers at labor tribunals, out of which 349 had been dismissed. Following decisions made by the labor tribunals in Colombo and Matara, the Authority had to deposit Rs. 13.8 million as compensation for 49 cases. Further, 518 cases remained pending at the Matara Labor Tribunal although decisions had been delivered for 81 cases, appeals had been filed in the Appellate Court. Furthermore, in ongoing cases, a compensation of Rs. 2,616 million had been claimed against the Authority. Despite these challenges arising from inefficient management decisions, the practices of irregular recruitment, failure to select investors systematically for projects and inadequate inclusion of essential clauses in lease agreements for lands and buildings are being continued.	Significant expenditures had been incurred on cases related to the Singapore arbitration concerning the Bambalapitiya Housing Redevelopment Project.	Management decisions should aim to minimize the number of cases filed against or by the Authority.

(e)	In the Mahawa Udagama area around the Kurunegala District Office, 03 places located at 14A, 15A, and 17A had been remained unused and had been left to deteriorate. Additionally, 5 houses belonging to the Authority had been closed and unused. Furthermore, locations 16A and 19A had been rented out at Rs. 100 and Rs. 1,200 per month, respectively, without obtaining a valuation report. Further, building 25A, which had been leased to the Vocational Training Authority without a formal agreement at a monthly rent of Rs. 21,500, with an outstanding rent balance of Rs. 2.64 million as at 31 December 2023. In the Lake Site area of Kurunegala, 3 official residences on 53 perches of land and 2 vacant land plots of 38 perches had been handed over to the National Water Supply and Drainage Board. Similarly, a 2 roods 24-perches land and building in Wannigama, Nikaweratiya, had been given to the National Equipment Machinery Organisation, without generating any income. Further, the 21-acres Denar Estate in Mawatagama, received through a deed of gift, was being used for unauthorized rubber tapping and as a parking place by a private entity, rather than use for the intended housing project.	The five houses in Mahawa are under the Divisional Secretary, and 19A has been leased based on government valuation. Donamorewatte has been leased to the highest bidder.	Proper monitoring should be conducted for all properties owned by the Authority. Agreements must be formalized, and valuation reports should be obtained before leasing and disciplinary action should be taken against officials responsible for leasing locations without valuation reports.
(f)	The Authority had disbursed Rs. 312.68 million as advance payments for 53 projects, including housing complex renovations, water projects, and bridge construction. However, these payments had not been settled as at 31 December 2023. Out of this amount, Rs. 106.24 million had remained unsettled for 3-4 years, Rs. 41.91 million for 4-5 years, and Rs. 164.53 million for more than five years. Out of the total amount, Rs. 254.36 million, or 81 percent had been paid to the State Engineering Corporation, yet no	The Ministry has intervened to initiate discussions aimed at resolving these outstanding payments.	Action should be taken to ensure that advance payments are cleared on time.

	action had been taken to settle this amount by the end of the year under review.		
(g)	A land plot extended 159 perches from Plot No. 1 of Plan No. 302 had been leased for 50 years to the Modara Venkateshwara Temple on Lease Agreement No. 8207 dated 14 December 2006. According to the agreement, the annual rent had been Rs. 1.15 million, subject to a 2.5 percent increment in every five years. However, due to unauthorized occupants on 39.7 perches of the land allocated to the temple, rental payments had not been made from 2007 to July 2013. As at 28 November 2013, an outstanding rental amount of Rs. 19.3 million had been remained. On 11 August 2023, the Board of Directors, through Decision No. 13/2023, decided to recover only Rs. 3 million in installments of Rs. 125,000 per month over two years. Despite 75 percent of the land being utilized during this period, due to lack of a security deposit at the time of entering the lease agreement it was impossible to recover the outstanding rent. Further, as per the President Circular No. SEI/A/4/34 dated 12 July 1993 regarding state land allocation, rent increments in every five years must not be less than 150 percent. However, the Authority had failed to adhere to this directive. Another building associated with the temple is being constructed on vacant land owned by the Authority without permission and no action had been taken regarding this unauthorized construction.	Approval was granted in the agreement for construction and an agreement was made to pay Rs. 3 million for the period during unauthorized occupants were present. Payments are expected to begin in April.	Disciplinary action should be taken against officials who failed to obtain a security deposit on lease agreements and having not implemented rent increments as per the circular guidelines.
(h)	The Authority could be generated substantial income through the implementation of housing development projects, land and housing sales, shop and housing rental/leases, and operations such as Community Halls and garages. However, this had not been pursued. From January to September 2023, the Authority	Since the Authority had not received funds from the Treasury for rehabilitation/ administrative costs, these expenses are covered by loans. In the future, efforts will be made to secure additional loans through internal sources.	Disciplinary action should be taken against officials who failed to increase the Authority's income efficiently.

	had spent of Rs. 1,669 million out of the Rs. 2,868 million collected in housing loans and interest on its recurrent expenditure. Additionally, Rs. 139.9 million had been paid to loan collection agents. Consequently, Rs. 415 million had been spent from the collected loan and interest amounts to provide new housing loans, which was a 14 percent lower value of the collected loan and interest.		
(i)	The administrative fees, which were being charged during property sales, had been reduced from 15 percent to 7.5 percent from 25 April 2023 by a decision made at the Board of Directors meeting on 13 June 2023 and this had been led to a loss of Rs. 5.78 million to the Authority. Further, during the process of transfer, the method of collecting payments, either as a lump sum or in installments, had been altered and the interest rate on remaining payments had been reduced from 16 percent to 12.5 percent. These decisions may lead to losing income in the Authority and it was given privilege to the external parties.	The property administration fee had reduced by 7.5 percent with approval from the Board of Directors, as the market price exceeded the value determined by the government assessment by an additional 15 percent.	The Authority should make favorable decisions and actions should be taken against those who made unfavorable decisions.
(j)	The Maligawatta office of the Authority had leased or rented out 109 shops. Among these, 39 shops had been leased at a rent between Rs. 100 and Rs. 1,000, and 3 shops had been rented for less than Rs. 100. Additionally, 30 shops had been rented for a fee between Rs. 1,000 and Rs. 3,000. Although the leases for these shops had been in effect for periods ranging from 24 to 65 years, the rental assessments had not been updated. Furthermore, there was an arrears of unpaid rent for 83 shops, with the overdue payment instalments ranging from 1 to 333 and period of 1 month to 27 years and 9 months. Additionally, the accumulated overdue rent for 36 shops, exceeded one year, was Rs. 16,409,514. Moreover, Rs. 10.8 million of overdue rent had been defaulted	These were old restorations. Of these, 72 shops were occupied by the original owners or heirs, while 32 had defaulted their rent. Efforts are being made to lease these shops again.	Legal action should be taken against those who failed to update the rental fees for a long period.

	by 5 individuals. But, the Authority had not taken any action in this regard.		
(k)	The Authority, in collaboration with private investors, had initiated projects in 2013, including the Pallegama, Jalthara Adiyara II projects, which had been completed, while the construction activities of housing projects such as Kavirathna Residencies, Hantana Dunumadaluwa Villas and Kundasala Heights Park had been stopped. Further, the developers paid a deposit of Rs. 180 million for the land provided for these projects, but despite 10 years having passed, action had not been taken to settle this balance.	These projects had been implemented under the State-Private Partnership program with private investors. The Hantana Housing Project Phase II and Phase III—Land Survey Reports have now been received, and based on the conditions and recommendations, a Cabinet Paper has been resubmitted to obtain approval for the continuation of the project and price escalation. The Yakkala Siyane Uyana Soba Uyana Housing Project and Kalugala Pallegama Regency Park Housing Project Phase I and Phase II, the Jalthara Housing Project Phase II, and Homagama Mount Clifford Housing Project have been completed. The Wadduwa - Nugagahakannathwatta Housing Project and Ragama Lavanya Heights Housing Project have filed a lawsuit to recover funds from the Escrow account. The Mihindupura Housing Project has received Cabinet approval on 30.11.2021 to restart the project.	The projects should be expedited as planned, and its benefits should be delivered to the public promptly

3.3 Human Resources Management

Audit Observation	Management Comment	Recommendation
As at 31 December 2023, the approved number of employees in the Authority had been 2,164, while the actual number of employees was 1,697, leaving 467 vacancies.	Internal promotions have been carried out.	Immediate action should be taken to fill the essential vacant positions.

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation	Management Comment	Recommendation
According to the State Finance Circular No. 402 dated 12 September 2022, the annual performance report should be prepared within 150 days after the end of the financial year and submitted with a copy to the Auditor General to be tabled in Parliament. However, the Authority had not tabled the annual reports for the years 2019, 2020, and 2021 in Parliament as of 26 October 2023.	The 2019 and 2020 reports have been referred for translation.	Action should be taken in accordance with the instructions of the circular.

4.2 Sustainable Development Goals

Audit Observation	Management Comment	Recommendation
According to the 2030 Sustainable Development Agenda, the Authority had not identified the relevant sustainable development goals, targets, and indicators under its scope.	Under Sustainable Development Goal No. 11, the National Housing Development Authority has started to identifying the relevant targets.	It is necessary to identify sustainable development goals, set targets, and establish indicators to measure progress towards achieving them.