

Land Reform Commission - 2014

The audit of financial statements of the Land Reform Commission for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance and statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 56 of Land Reform Act, No. 01 of 1972. My comments and observations which I consider should be published with the Annual Report of the Commission in terms Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

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

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and elements of statement of financial position, statement of financial performance and statement of changes in equity, and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

The following observations are made.

(a) The Commission had continuously followed the policy that out of the cash received from sale of lands belonging to the Commission, 40 per cent had been accounted as a reserve , whereas 60 per cent had been accounted as an income of the year. As adjustments had not been made by identifying the costs of the lands being sold, the financial position and the financial results had not been correctly shown. Sale proceeds of Rs. 1,052,746,966 and Rs. 131,194,166 had been shown as income from sale of lands from the year 2006 to 31 December 2013, and during the year under review respectively. In addition to this, action had not been taken to compute the profit by identifying the cost in connection with the motor vehicle sold during the year under review Rs. 1,226,950. The audit had been informed by the Chairman of the Commission that action had to be taken in such a manner, owing to non-availability of a Land Register, and information regarding the old assets held in the possession of the Commission.

(b) Even though it was revealed by the notes to accounts that financial statements had been prepared on accrued basis, accounts had been prepared without considering receivables of Rs. 49,845,316, receipts in advance amounting to Rs. 19,738,726, and payables of Rs. 28,567,470.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Cash flow statements should be prepared to show cash in-flows and out-flows of the year. However, a sum of Rs. 3,488,850 received from sale of a motor vehicle, had not been included as a receipt of cash.

- (b) A compensation suspense fund had been established for the compensation payable for the lands taken over by the Commission, but a provision for the interest payable on the compensation, had not been made. However, instead of accounting the interest on compensation as an expense of the year, a sum of Rs. 42,483 had been deducted from the fund. Furthermore, action had not been taken to estimate the interest to be paid, in future and to make provisions accordingly.

2.2.3 Contingent Liabilities

The Court of Appeal had returned a verdict in the year 2009 that a sum of Rs. 148,715,363 be paid to the complainants who filed a case against the Commission claiming the ownership of a land. Even though the sum to be paid had exceeded Rs. 200 million as at 08 June 2015 inclusive of the interest, no provision for this liability had been made in the accounts.

2.2.4 Unexplained Differences

The following observations are made.

- (a) According to the financial statements of the year under review, compensation to be paid under compensation suspense stage I and II amounted to Rs. 223,235,616. However, according to the records of the Assessment and Compensation Division, the compensation to be paid by the Commission to the claimants amounted to Rs. 555,000,000 inclusive of interest . As a difference of Rs. 331,764,384 was observed accordingly, the accuracy thereof could not be verified in audit.
- (b) According to the financial statements, the rental receivable from 108 lessees amounted to Rs. 61,154,808, but according to the records of the Revenue Division it was Rs. 70,317,254. Accordingly, a difference of Rs. 9,162,446 was observed.
- (c) An income amounting to Rs. 26,760,244 in connection with 43 lessees stated in the rent receivable account had not been included in the records of the Revenue Division.

2.2.5 Non-availability of Evidence for Audit

As the documentary evidence stated against each item mentioned below, was not made been available to audit, the accuracy of those transactions could neither be vouched nor accepted.

<u>Item of Account</u>	<u>Balance</u> Rs.	<u>Evidence not made available</u>
<u>Fixed Assets</u>		
Lands	676,169,345	Schedules containing information on lands aquired
Buildings	4,586,223	Registry of Assets, and Board of Survey Reports
Computers and Accessories	7,185,162	
Furniture and fixings	857,543	
Motor Vehicles	68,673,071	
Office Equipment	20,310,316	
Welfare equipment	984,896	
<u>Loans and Advances</u>		
Printing and Stationary	10,000	Confirmation of Balances
Fuel Advances	185,000	
Provisions for Bad Debts	8,270,356	Basis for the provision
Income Receivable	29,731,610	Confirmation of Balances , and Detailed Schedules
Sales of Timber	1,987,706	Documents with regard to Assessment of Timber
Compensation Suspense Account	223,235,616	Detailed Schedules
Acquisition of Lands	58,090,886	
Sales of Paddy Lands	271,896	
Demurrages receivable for Lands	9,689,132	Detailed Schedules
Rented out		

2.3 Accounts Receivable and Payable

The following observations are made .

- (a) In spite of a sum of Rs. 8,270,356 had been provided as doubtful debts for trade debtor balances totaling Rs. 2,135,747,805 remained outstanding for more than 12 years, and sundry debtor balances totaling Rs. 2,921,575 remained outstanding for more than 15 years, the Commission had not taken any actions what so ever even during the year under review to recover those debts.
- (b) Even though a sum of Rs. 2,135,625,366 had been shown in the financial statements of the Commission as receivables from 09 Public institutions, it was observed in audit that there had been no such balances in the financial statements of those institutions to be settled to the Commission.
- (c) Any amount had been recovered even by the end of the year under review from the total loan balance of Rs. 718,656 remained recoverable from 46 employees of the Commission since the year 2010.
- (d) The balance shown in the Land Lease Advance Account amounted to Rs. 13,840,850 as at the end of the year under review, and of that, a sum of Rs. 11,215,850 for more than 09 years , and a sum of Rs. 2,625,000 for a period of 03 - 08 years had been included in the account. The Commission had not taken any action what so ever to settle those balances.

2.4 Non – compliance with Laws, Rules and Regulations

The following non – compliances were observed.

References to Laws, Rules and Regulations

etc.

Non – compliance

- (a) Land Reform Act, No.01 of 1972

Sections 45 (i) (a) (iii)

A member representing the Line Ministry had not been appointed to the Board of Control of the commission.

- (b) Finance Act, No. 38 of 1971
Section 11
Consent of the relevant Minister , and the Minister in charge of Finance in connection with a sum of Rs. 160,000,000 invested in fixed deposits had not been obtained.
- (c) Value Added Tax Act No. 14 of 2002
As the Commission had not been registered under Value Added Tax Act, Government had lost the tax income amounting to Rs. 26,827,886 receivable during the year under review.
- (d) Establishments Code of the Democratic Socialist Republic of Sri Lanka
Paragraph 13.3 of Chapter II
The post of Director (Finance) had remained vacant for a period of more than 07 years, but action had not been taken to fill the post even up to 15 June 2015.
- (e) Financial Regulations of Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 134(3)
• Copies of the internal audit reports had not been sent to the Auditor General
- (ii) Financial Regulation 371(2)
• Although sub- imprests should be settled immediately after the purpose for which it is granted , advances had been settled after a considerable delay in 34 instances.
- (iii) Financial Regulation 371(4)
Advances had been obtained in 19 instances without properly forecasting the expenses to be incurred. The saving of the advances had been in the range of 27 – 92 per cent.

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| (iv) Financial Regulation 757 | Board of Survey had not been conducted as at 31 December of the year under review, nor had the Board of Survey reports been presented to the audit. |
| (f) Treasury Circular No. 842 dated 19 December 1978. | Register of Fixed Assets had not been maintained in a proper and updated manner. |

3. Financial Review

3.1 Financial Results

According to the financial statement presented, the financial result of the Commission had been a surplus of Rs. 87,130,484 as compared with the corresponding surplus of Rs. 97,096,038 for the preceding year, thus indicating a deterioration of Rs. 9,965,554 in the financial result for the year under review. The deterioration had mainly been caused by the decrease in the interest of land acquisition compensation income by a sum of Rs. 15,784,616, and the increase in the staff cost by a sum of Rs. 23,509,742 as the year under review is compared with the preceding year.

3.2 Analytical Financial Review

The following observations are made.

- (a) The current ratio of the year under review was 22:1. A sum of Rs. 2,158,312,885 or 90 per cent with regard to 24 items of the current assets by the end of the year under review consisted of loan balances of more than 12 years ,of which recovery had been doubtful , and this represented 54 per cent of the total assets. Accordingly, it was not possible to determine the real position of assets and liabilities, and the financial position of the Commission was shown in the statement of financial position.
- (b) The value of cash and cash equivalents had increased by a sum of Rs. 15,104,068 by the end of the year under review as compared with the preceding year, indicating an increase of 20 per cent.

3.3 Legal Cases Instituted by, or Against the Commission

The following observations are made.

- (a) The number of cases filed by , or against the Commission was 448, and the legal expenses incurred by the Commission in that connection amounted to Rs. 4,061,224.
- (b) By the end of the year under review, 14 cases against the Commission in connection with rights on compensation, and 07 appeals made to Land Acquisition Review Board, were being proceeded.

4. Operating Review

4.1 Performance

Ten activities had not been implemented in accordance with the Action Plan for the year under review, and it was observed that the progress of 19 activities was as low as 1 – 50 per cent.

4.2 Management Inefficiencies

The following matters were observed in connection with the compensation to be paid by the Commission to the claimants.

- (a) Out of 110 files , of which ownerships had not been confirmed, and the gazette notification had been published on the payment of compensation under Section 29 of Land Reform Act, No. 01 of 1972, ownership had not been confirmed for 106 files. Furthermore, the number of files , on which action had not been taken due to deficiencies in taking over the tenure, amounted to 35.
- (b) It was observed that information should further be collected for about 575 files with regard to the ownership of lands vested with the Commission.
- (c) In an instance as per section 33 of the Land Reform Act, No. 01 of 1972, that either the ownership is not confirmed or paying compensation is not possible , the amount of compensation should be deposited in any court of civil jurisdiction to be paid to

the person or persons entitled thereto. Nevertheless, action had not been taken to deposit money in the appropriate court with respect to nearly 60 files .

(d) A statement on how compensation had been paid from the compensation suspense account (i) during the previous 5 years , is given below.

<u>Year</u>	<u>Opening Balance of Compensation Suspense Account</u>	<u>Closing Balance of Compensation Suspense Account</u>	<u>Sum Paid</u>	<u>As a Percentage</u>
	Rs.	Rs.	Rs.	
2010	140,769,719	138,136,888	2,632,831	1.87
2011	138,136,888	131,287,683	6,849,205	4.96
2012	131,287,683	126,561,891	4,725,793	3.6
2013	126,561,891	119,139,915	7,421,976	5.86
2014	119,139,915	113,276,123	5,863,792	4.92

Although the Commission should pay compensation for the lands vested in it in accordance with Section 28 of Land Reform Act, No. 01 of 1972, considering the performance of the Commission during the previous 05 years, it was observed that settlement of compensation within a period of 05 years from the compensation suspense account (i) , was as low as 1.87 per cent to 5.86 per cent. Furthermore, compensation had not been settled from the compensation suspense account (ii) ,and the balance of Rs. 109,959,493 had remained unchanged for several years.

4.3 Operating Inefficiencies

The following observations are made.

- (a) Approval of the Commission had not been obtained to allocate 60 per cent and 40 per cent from the land sales income as operating expenses, and reserves respectively.
- (b) An income of Rs. 300,653 had been earned during the year under review from 150,000 acres of coconut lands that were in direct control of the Commission in the districts such as, Colombo, Kurunegala, and Puttalam. The said income through coconuts was less than 0.09 per cent of the overall income.

- (c) Even though the balance of the survey fees advance account amounted to Rs. 23,361,248 by the end of the year under review, only a sum of Rs. 3,302,303 had been paid as survey fees.
- (d) Four districts of which monthly income limit does not exceed Rs.60,000 for the year under review had been reported, whereas no income had been reported for some months with respect to 04 other districts. Furthermore, a succession income of Rs. 300,000, and a tax income of Rs. 19,300 had been received from Trincomalee and Anuradhapura districts respectively. The Commission had not paid attention on the steps to be taken for the continuation of those offices.

4.4 Transactions of Contentious Nature

A sum of Rs. 4,888,492 for a period of 1-7 years , and a sum of Rs. 6,899,500 for a period of more than 8 years had been paid as advances for obtaining lands by 402 staff members of the Commission and external parties. Obtaining advances following an approval granted on a request made by the *Sri Lanka Nidahas Sevaka Sangamaya* to the Minister of Plantation Industries that lands be granted to the employees of the Commission at the assessed value, was a transaction of contentious nature. It was further observed that there had been 54 instances in which advances had been obtained from certain applicants in order to grant more than 01 plot of land.

4.5 Weaknesses in Contract Administration

The Commission, had awarded the contract to the District Secretary , Puttalam in November of the year under review for the construction of a building for an estimate of Rs. 5,282,197 for the Land Reform District Office in Puttalm district. The following matters were observed in that connection.

- (a) Provisions for this construction had not been made in the budget estimate for the year under review. Even though this construction had been included in the Action Plan, the expenses to be incurred thereon had not been forecasted.
- (b) The construction had been awarded to the District Secretary , Puttalam, only on the decision made by the Commission without an approval of the Line Ministry. Even though a sum of Rs. 2,112,879 had been paid as advance in November of the year under review, the construction work had not been commenced even as at the date of audit on 23 April 2015 .

4.6 Personnel Administration

The following observations are made.

- (a) Even though the information received by the audit from the administrative division stated that the number of approved cadre of the Commission had been 307, and the number of approved cadres as at 31 December 2014 had been 393 in accordance with the letter No. DMS / E2 / 01 / 7 /008/2 of the Department of Management Services dated 03 October 2012, it was observed that the approval required to increase the number of approved cadre, had been obtained on 18 March 2015. Further , the number of employees appointed in excess of the said number as at 31 December 2014, was 19.
- (b) The number of posts remained vacant by the end of the year under review, was 13 out of which, 04 vacancies were of staff grade. Furthermore, an officer had been appointed in a post which had not belonged to the approved cadre.

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made.

- (a) Cost estimates for 06 activities included in the Action Plan for the year under review, had not been presented. Although a physical progress of 100 per cent had not been achieved with respect to 04 activities, it was observed according to the progress report that the entire provision had been utilized.
- (b) As differences had been observed in audit between the progress in collecting income for 04 activities in accordance with the progress report of the Commission, and the income generated through those activities as per the financial statements of the year under review, it could not be satisfied in audit with the accuracy of information stated in the progress report.
- (c) According to the Action Plan, an expense of Rs. 2,500,000 had been estimated in order to purchase 03 new vehicles (on lease). However, no vehicles had been purchased during the year under review.

- (d) According to the Action Plan for the year under review, the estimated income from sales and rentals of lands amounted to Rs. 113,350,000. However, according to the financial statement, the actual income was Rs. 192,294,300 , and income had been collected exceeding the estimated income by 70 per cent. Although an income estimate had not been presented to prepare plans by inspecting the lands in accordance with the Action Plan, the report on the progress had stated the income as Rs. 60,000,000. Hence, it was observed in audit that income had been estimated without a proper forecast.
- (e) Although the Commission had estimated a sum of Rs. 1,000,000 for the payment of compensations and interests, during the year under review payments amounting to Rs. 5,863,792 had been made. As such, expenses had been incurred in excess of the estimates by 486 per cent.

5.2 Internal Audit

According to the internal audit plan for the year 2014, it had been planned to carry out examinations on Finance Division, Land Transfer Division , and income and expenditure reports and monthly accounts details of all district offices. However, those areas had not been covered.

5.3 Budgetary Control

As significant variances from 13 per cent up to 129 per cent in income and 1 per cent to 2950 per cent in expenditure were revealed while comparing the budgeted income and expenditure and the actual income and expenditure in the year 2014, it was observed that the budget had not been made use of an effective instrument of management control.

5.4 Unsettled Audit Paragraphs

A sum of Rs. 17,000,000 paid to a private institution in the year 2002 for purchasing a computer software, had been accounted as an advance even by the end of the year under review. It was further observed in audit that an investigation in that connection had been in progress with the Criminal Investigations Department, and such an institution had not been in existence. Any information to that effect had not been disclosed in the financial statements.

6. Systems and Controls

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

- (a) Legal Affairs
- (b) Debtors Control
- (c) Investment Property
- (d) Leasing of Lands
- (e) Operating Field Activities
- (f) Control of Vehicles
- (g) Receipts of Cash