

## **Land Reform Commission**

### **1. Financial Statements**

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#### **1.1 Opinion**

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In view of my comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Land Reform Commission for the year ended 31 December 2010 presented to audit.

### **1.2 Comments on Financial Statements**

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#### **1.2.1 Sri Lanka Accounting Standards**

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The following observations were made.

(a) Although the provision for gratuity as at 31 December 2010 amounted to Rs.31,913,642, the balance of the Sinking Fund Investment Account existed in this connection amounted to Rs.5 million only. Thus, it was observed that the Sinking Fund had not been maintained with the corresponding provision for gratuity in terms of Accounting Standard No.16.

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(b) The useful life, residual value, cost etc. had not been considered when deciding the rate of depreciation in respect of some of the fixed assets of the Commission in terms of Accounting Standard No.18.

(c) Six hundred and forty eight court cases had been filed as at end of the year under review against the Commission and by the Commission on various matters. Out of these, 104 cases had been settled. But, the disclosures on

contingent liabilities had not been made in respect of the balance 544 cases in terms of Accounting Standard No. 36

- (d) Lands acquired by the Commission had not been identified and brought to account as investment property in terms of Accounting Standard No.40. Even though the value of land in extent of 546,141 acres belonging to the Commission as at 31 December 2010 had been shown as Rs. 676,169,345, the Commission had not possessed a detailed schedule or a Register of Lands in respect of these lands. In addition to this, adjustments had not been made with regard to the cost on income from sale of lands amounting to Rs.472,039,446 from the year 2006 to the year under review. In this connection any information relating to extent of lands had not been presented for audit. Accordingly, the correctness of the value of lands shown in the financial statements could not be confirmed in audit.
- (e) Disclosures had not been made in the accounts whether the Commission had adopted necessary accounting practices in order to maintain its assets at the value not more than the realizable value in terms of Accounting Standard No 41.

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### **1.2.2 Disclosure of Accounting Policies**

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The following observations were made.

- (a) The policies relating to identification of revenue and accounting of revenue had not been disclosed in the financial statements.
- (b) The accounting policies used for valuation of stocks had not been disclosed in the financial statements.
- (c) A register containing detailed information on lands given under the lease agreements had not been prepared.

- (d) The fundamental basis such as cash basis or accrual basis followed in the preparation of accounts had not been disclosed under the accounting policies.

### **1.2.3 Accounting Deficiencies**

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The following observation was made.

- (a) Differences were observed between the value shown in the documents of the Boards of Survey and the value shown in the financial statements in respect of stock of stationeries of the Head Office. As a result, the value of stock of stationeries had been overstated by Rs.327,706.
- (b) The Lease Account and the Lease Suspense Interest Account had been overstated by Rs.235,993 and Rs.14,893 respectively.
- (c) Revenue on sale of lands had been overstated by Rs.213,280 and revenue on sale of agricultural land had been understated by Rs. 245,400
- (d) The revenue on administration charges and the revenue withheld as reserves had been brought to account understating by Rs.31,620 while transferring to the General Ledger.
- (e) Lease rentals amounting to Rs.8,115,169 to be recovered for the year under review from leasing out of lands had not been brought to account.
- (f) Unsettled advances amounting to Rs.131,500 for the year under review had been brought to account as expenditure.
- (g) Although according to the files maintained by the Commission for the rentals of the Head Office Building, rentals payable as at 31 December 2010

amounted to Rs.35,803,000, it had been shown in the financial statements as Rs.10,680,000. Adjustments had not been made even during the year under review in respect of building rentals amounting to Rs.600,000 which had not been brought to account for the year 2009 on the basis of undervaluation of building rent.

- (h) Computers and software amounting to Rs. 1,402,040 purchased in the year 2008 had been brought to account under office equipment and adjustments for provision of depreciation amounting to Rs.166,319 had not been made in order to correct this erroneous accounting entries.
- (i) During the year under review any adjustment had not been made in respect of doubtful debts and the balance of provision for doubtful debts as at 31 December 2010 amounted to Rs.8,270,356 thus, representing 0.4 per cent of the total balance of the debtors.

#### **1.2.4 Accounts Receivables and Payables**

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- (a) Adequate actions had not been taken to recover sums aggregating Rs. 2,140,531,267 remained outstanding for more than 09 years from various debtors and recoverable from 9 institutions.
- (b) According to the age analysis of debtors balances, action had not been taken for more than 11 years to recover a sum of Rs.2,071,113,696 from the Government institutions and Rs.2,921,575 from other various parties. Out of the current assets as at end of the year under review, a sum of Rs.2,140,531,267 or 94 per cent had consisted loan balances receivables and it represented 63 per cents of the value of the total assets. Although the Committee on Public Enterprises in its meeting held in the month of November 2008 and the audit report for the year 2009 had queried about the

action taken by the Commission to recover the outstanding amount, proper action had not been taken to recover the above balances.

#### **1.2.5 Un-settled Balances**

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The following Observations were made.

- (a) The unsettled balances of the Compensation Suspense Account maintained for more than 18 years under stage I and stage II totalled Rs.248, 096,381
- (b) As the transfers of lands had been prohibited by the decision of the Cabinet of Ministers No.CS/CP/26/2004,dated 22 July 2004, the advances amounting to Rs. 13,217,292 obtained from 470 persons in respect of transfer of lands had not been settled.

#### **1.2.6 Lack of Evidence for Audit.**

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The following items of accounts could not be satisfactorily vouched /verified due to non rendition of evidence indicated against each item.

Item of Account -----	Balance -----	Evidence not Presented -----
	Rs.	
(a) Debtors	2,140,614,380	Confirmation of balances
(b) Six items of fixed assets	727,397,965	Boards of Survey Reports, Register of Lands, Register of Buildings and detailed schedules.
(c) Trade and other payable expenditure	101,770,631	Age analysis and detailed schedules
(d) Motor vehicle Repair Expenditure	4,377,171	Price enquiries and quotations relating to repairs amounting to Rs.3,645,120

(e) Compensation suspense Account	248,096,381	Detail on the manner of arriving the balance
(f) Sale of Timber	56,222	Documentary Evidence relating to valuation of timber

- (g) Although two institutions rendered the lowest quotations had been rejected considering the weakness of their services when making selection of suppliers for the security services of the Commission, any documentary evidence obtained thereon had not been presented for audit.

### **1.2.7 Non - compliance with Laws, Rules, Regulations etc.**

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Instances of non- compliance with the following laws, rules etc. were observed.

Reference to Laws, Rules, Regulations etc.	Non- compliance
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- (a) Finance Act No.38 of 1971

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(I) Paragraph 11 of the Finance  
Act and the Public  
Enterprises Circular  
No.PED 25(1) dated 10  
August 2004

The required approval had not been obtained  
in respect of investments amounting to  
Rs.404,388,972.

- (II) Sub section 7 of Section 13  
(8) of the Finance Act

The report of the Auditor General in terms of  
Section 13 (7) (a) for the year 2009 had not  
been discussed by the Commission and the  
action taken thereon had not been reported to

the Auditor General.

(b) Government Financial  
Regulations

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(I) FR 371 (2)

Advances amounting to Rs.1,125,247 had been granted to the non staff grade officers during the year under review.

(II) FR 1646

Running charts and monthly summaries in respect of 14 vehicles had not been presented to the Auditor General chronologically.

(III) FR 502 (2)

Register of fixed Assets containing the information such as cost, identification code, date of acquisition, rate of depreciation per annum and installation had not been maintained in respect of each item of fixed assets.

(c) Circulars

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I. Treasury Circulars

i. Public Enterprises  
Circular No.PED 12 dated  
02 June 2003

- i. The Commission had approved food and lodging allowance to the Chairman and the Acting Executive Director at the rate of Rs.2,000 and Rs.1,500 respectively contrary to the circular provision.
- ii. Even though according to the Public Enterprises Circular No.PED 12 dated 02 June 2003, an Executive Officer could obtain fuel subject to the maximum of 190 liters of

diesel per month, the Acting Executive Director of the Commission had used 2754 liters of fuel exceeding this limit without the approval. In this connection additional expenditure incurred to the Commission amounted to Rs.243,199.

II. Public Administration  
Circular

- i. Paragraph 1(6) of the Circular No. 22/99 dated 08 October 1999

Even though according to the Circular instruction the Deed Adviser of the Commission appointed on temporary basis could not obtain the official vehicle facilities, he had used a vehicle to travel to and from residence and he had utilized 1820.54 liters of fuel from the month of January to December 2010. The expenditure thereon amounted to Rs.132,900.

In this connection the Chairman had reported as follows.

“It was informed to the relevant Divisions to furnish the detail of the quantity of fuel in excess of the approved limit to the Board of Directors.

- ii. Section 2.3.1 of the Circular No.353(5) dated 3 January 2003

An Evaluation Committee should be appointed to evaluate the disposable assets and determine the minimum bid for them. At least three members should be consisted in this regard. Even though an Engineer /

Technical Officer and as more suitably an Officer of the Department of Valuation or at least an Accountant should be consisted, action in terms of this Circular provision had not been taken in respect of market valuation of the Narangollae Estate, tea factory amounting to Rs. 1,900,000

iii. Section 02.1 of the Circular No.09/2009 dated 16 April 2009

Even though all the Government employees including Head of the Institution should prove their arrival and departure through thumb mark printing machine, the Acting Executive Director and the Deed Advisor had not done accordingly.

iv. Circular No.11/2006 dated 14 July 2006

The Acting Executive Director had used pool vehicles in addition to his official vehicles.

III. Circular of the Presidential Secretariat

Section 8(c) of the Circular No.SEI/A/4/34 dated 21 July 1995

According to the lease agreement it was mentioned that if the lessee has failed to pay lease the lease agreement is terminated automatically and the relevant lease agreement should be cancelled. Even though a private company had defaulted the lease payment from October 1993 to Year 2005 action had not been taken accordingly.

(d) Section (c) of the Nation Building Act No.09 of 2009

Even though according to the Nation Building Act, tax should be recovered from any person

carrying out business which provide any nature of services, action had not been taken by the Commission in accordance with this provision.

(e) Government Procurement  
Guidelines

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I. Section 9.3.1 (b)

Even though approval of the Secretary of the Line Ministry should be obtained for repairs exceeding Rs.100,000, such approval had not been obtained for vehicle repairs made in 4 instances by spending Rs.1,289,309.

(f) Establishments Code

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Section 13.3 of Chapter II

Although acting appointment could be made as a temporary measure until the permanent appointment is made, the acting period of three officers of the Land Reform Commission had exceeded 3 years and a sum of Rs.230,760 had been paid as acting salary. The Chairman informed in his reply that applications for the relevant post had been called for but the activities of recruitment was failure as no one willing to join the service with the relevant salary steps.

## **2. Financial and Operating Review**

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### **2.1 Financial Review**

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#### **2.1.1 Financial Results**

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According to the income statement presented, the working of the Commission for the year under review had resulted in a surplus of Rs. 10,221,761 as compared with the corresponding surplus of Rs. 22,585,948 for the preceding year, thus indicating a decrease of Rs. 12,364,187 in the surplus or 55 per cent. A comparison of figures of the income statement for the year under review with those of the previous year, shows that the decrease in other operational income (fixed deposits) from Rs.50.3 million to Rs.36.9 million and increase in administrative expenditure from Rs.141.4 million to Rs.154.8 million and increase in other operational expenditure from Rs.3.4 million to Rs.5.5 million had been the reason for decrease in surplus.

- (b) After making adjustment for changes in working capital, 50 per cent decrease was observed in the net cash flow from operating activities.

## **2.2 Operating Review**

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### **2.2.1 Performance**

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- (a) According to the Action Plan, the performance report showing the targets the manner of achievement of progress had not been presented.
- (b) Action had not been taken during the year under review in respect of 04 activities included in the Action Plan for the year 2010.
- (c) The percentage of non-achievement of performance in respect of 09 activities included in the Action Plan for the year 2010 had been at the higher range

between 54% to 83%. As such it was observed that the purpose of the Action Plan had not been properly fulfilled.

### **2.2.2 Management Inefficiencies**

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- (a) A programme had been introduced for providing lands to the employees of the Commission with the purpose of welfare of the employees based on the decision of the Commission. Even Though more than 4 years had elapsed, action had not been taken to provide lands for the advances amounting to Rs.3, 584,600 obtained from them for sale of lands.
  
- (b) It was observed that considerable amount of cash had remained idle in the Bank Current Accounts of the Commission during the year under review and in those instances more than Rs.20 million had remained idle for more than 3 months period. As a result, the interest income that could be earned by investing the above amount effectively had been lost.
  
- (c) An Advisor of the Deed Division had been appointed on assignment basis for three months period with the approval of the Commission from the month of June 2007. Even though it was informed that not to make recruitment for posts without the approval of the Department of Management Services, his service period had been extended from time to time from the month of December 2009 to June 2011. Adequate information were not made available in the personal file to confirm the qualification of this officer. According to the condition of the recruitment, monthly report for his duty had also not been submitted by him. Further, according to the information of the vehicle running charts submitted for audit, the amount spent for him for fuel was Rs.273,650.
  
- (d) Several files relating to activities completed and non-completed had been stored at the record room in an improper manner. As a result, there was a risk of misplacement of files of the Commission.

- (e) Even though it was mentioned in the running chart by the Driver that the vehicle No.53 – 9673 had been used for a distance of 274 k.m after handing over it to the garage for repairs, in this connection any action had not been taken by the Commission.
- (f) The Government had lost very large amount of tax of Rs.16,712,517 due to non-registration of the Commission for the Value Added Tax in terms of Value Added Tax Act No.14 of 2002.

In this connection the Chairman had reported in the following manner.

“The Commission is not an institution with the main purpose of earning profit and it provides lands to the helpless and needy people. In the same way if this tax is recovered, it would be recovered from the general public. As a result, this was a difficult activity.”

### **2.2.3. Identified Losses**

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A sum of Rs. 1,700,000 paid during the year 2007 to obtain a computer software package had been brought to account as advance up to 31 December 2010. It was revealed in audit that the investigation is being conducted by the Department of Criminal Investigation in respect of this payment. In this connection any disclosure had not been made in the financial statements.

### **2.2.4 Operational Inefficiencies**

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- (a) Eight hundred and sixty nine plots of lands with several problems such as lands for which information could not be found, lands not transferred, lands for which the present information were not made available, were observed at the review of Registers prepared in respect of lands belonging to 6 District Offices.

- (b) Leasing out of Waljapala Estate at Minuwangoda for an Industrial Park during the year 1998

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Land in extent of 15 acres, 1 rood and 4 perches had been vested to the Industrial Ministry in respect of 13 industries. In this connection the following matters were observed.

- I. The amount of lease from one institution had been under recovered due to under computation of the extent of land leased out by 1 rood 33 perches.
- II. The lease amount had not been recovered from two institutions. The Chairman informed me in the month of March 2011 that action is being taken to obtain the date of handing over of possession from the Ministry and to recover cash from that date by entering into a lease agreement.
- III. The lease amount recoverable from a company amounted to Rs.211,688 whereas two companies had failed to pay the lease amount but, surcharges had not been recovered. Even though the recovery of surcharge was implemented as a procedure of the Commission, the Chairman informed me that the recovery of surcharges is difficult at the instances of non-inclusion of such a condition in the lease agreement.
- IV. The lease amount of 4 plots of land had to be revised. As a result, a considerable amount of income to be recovered by the commission had been lost. The chairman informed that action is being taken to revise and recover.

- (c) Mirigama Batagolla Estate and Renagala Estate

The following matters were observed

- I. Even though 50 acres and 26 perches of this land had been leased out to a Plantation Company in the month of January 2004, the lease amount had not been recovered for a land in extent of 02 acres and 26 perches. The Chairman informed me in the month of February 2011 that the legal action could not be taken to

recover the outstanding amount relating to that plots of land until a development or utilization is taking place due to not handing over of possession legally.

II. Payment of lease amounting to Rs.369,600 had been defaulted by this Plantation Company from March 2009 to March 2010 and the surcharge not recovered up to March 2009 amounted to Rs.6,100.

III. Timbers existed in the land assessed at Rs.52,222 had been sold to the lessee for a sum of Rs.34,000 in the year 2005 and the lessee had also functioned as the member of the Tender Board. The Chairman informed me in the month of February 2011 that it was accepted that the transaction had not been carried out openly and correctly and action had been taken for not occurring such situation.

(d) Johnsland Estate Land

This land belonging to the Board of Authority of the Gampaha District had been vested from the month of August 2009 and the lease amount for the period 2009 – 2013 was Rs.1,930,500. It was observed in audit that the lease amount along with the surcharge to be recovered from the year 2009 up to the month of December 2010 amounted to Rs.810,810

(e) Bothale Estate Land

A land in extent of 05 acres and 29 perches had been leased out from the year 1998 and annual lease for the years from 2003 to 2008 amounted to Rs.6,075. The Chairman informed me that the lease amount had been revised from the year 2010 after obtaining the assessment value through the Government Chief Valuer for the new lease agreement.

**2.2.5 Corporate Plan**

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The following matters were observed according to the Corporate Plan prepared for the period 2011-2015.

- (a) When preparing Corporate Plan, action had not been taken in accordance with Section 5.1.2 of the Public Enterprises Circular No.PED 12 dated 02 June 2003.
- (b) When preparing Corporate Plan, the surplus shown in the financial statements from the year 2005 had been given incorrectly.
- (c) Even though it was shown that the Corporate Plan submitted, had been prepared for the period from 2011 to 2015, income and expenditure for the years 2013 to 2015 had not been forecasted in the Corporate Plan.
- (d) Ten activities for which details of physical and financial targets expected to achieve each year were not reflected in the Corporate Plan, had been included in the Corporate Plan. Accordingly, it was observed that attention had not been paid by the Commission for achieving objectives expected in the Corporate Plan in accordance with paragraph 5.1.1 of the Public Enterprises Circular No.PED.12 dated 02 June 2003.

#### **2.2.6 Budgetary Control**

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Significant variances were observed between the estimated income and expenditure and the actual income and expenditure thus, it was observed that the budget had not been made use of as an effective instrument of management control.

#### **2.2.7 Personal Management**

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Although the approved cadre of the Commission stood at 190, the actual cadre of the Commission as at 31 December 2010 stood at 412. Accordingly, excess cadre stood at 231. All these excess employees had been granted permanent status during the year 2009 based on the decision of the Commission subject to the covering approval of the Salaries and Cadre Committee of the Department of Management Services without amending the approved cadre. However, the approval had not been obtained thereon up to April 2011.

As a result, salaries and wages had been paid for 231 employees in excess of approved cadre.

### **2.2.8 Internal Audit**

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- (a) Even though an Internal Audit Unit of the Commission is operated, the post of Chief Internal Auditor had remained vacant from the month of February 2007.
  - (b) Even though it was planned to operate the internal audit in order to cover the activities of the Finance Division, activities of the Land Maximum Limit Division, activities of annual budget estimate, activities of vesting of land and activities of rectification of deficiencies reported by the Auditor General for the year 2010, those activities had not been carried out as planned.

### **2.2.9 Audit and Management Committee**

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The Commission is functioned under the Presidential Secretariat but a representative of the Secretariat had not participated in the meetings of the Audit and Management Committee.

### **3. Systems and Controls**

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

- (a) Accounting
- (b) Fixed assets
- (c) Interest Income on Fixed Deposits
- (d) Activities of the Land Division
- (e) Vehicle control
- (f) Record room
- (g) Recovery of Debtors Balance
- (g) Granting Advances
- (h) Investment of Surplus Funds

